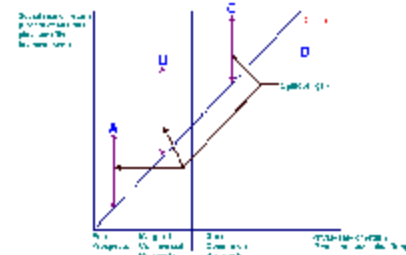


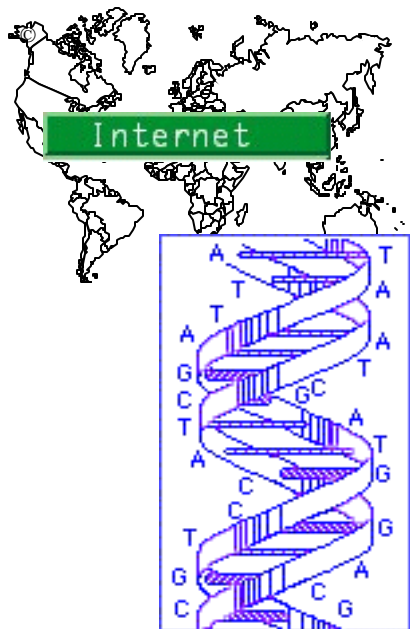
Intellectual Property in the Information Society

Professor
James Boyle
Fall 2001



"We promote the progress of science and the useful arts,
by securing for limited times to authors and inventors the
exclusive rights to their respective writings and
discoveries." U.S. Const., art. I, § 8, cl. 8.

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I. Introduction to The Information Society: A Case Study

The Human Genome Project

[The Congress shall have power] "To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries;"

U.S. Constitution Art. I, § 8, cl. 8.

Whenever a copyright law is made or altered, then the idiots assemble.

Mark Twain

New York Times, June 27, 2000
HEADLINE: READING THE BOOK OF LIFE: THE OVERVIEW;
Genetic Code of Human Life Is Cracked by Scientists

by NICHOLAS WADE

(edited excerpts)

In an achievement that represents a pinnacle of human self-knowledge, two rival groups of scientists said today that they had deciphered the hereditary script, the set of instructions that defines the human organism.

"Today we are learning the language in which God created life," President Clinton said at a White House ceremony attended by members of the two teams, Dr. James D. Watson, co-

The teams' leaders, Dr. J. Craig Venter, president of Celera Genomics, and Dr. Francis S. Collins, director of the National Human Genome Research Institute, praised each other's contributions and signaled a spirit of cooperation from now on, even though the two efforts will remain firmly independent.

The human genome, the ancient script that has now been deciphered, consists of two sets of 23 giant DNA molecules, or chromosomes, with each set -- one inherited from each parent -- containing more than three billion chemical units.

The successful deciphering of this vast genetic archive attests to the extraordinary pace of biology's advance since 1953, when the structure of DNA was first discovered and presages an era of even brisker progress.

Understanding the human genome is expected to revolutionize the practice of medicine. Biologists expect in time to develop an array of diagnostics and treatments based on it and tailored to individual patients, some of which will exploit the body's own mechanisms of self-repair.

The knowledge in the genome could also be used in harmful ways, particularly in revealing patients' disposition to disease if their privacy is not safeguarded, and in causing discrimination.

The joint announcement is something of a shotgun marriage because neither side's version of the human genome is complete, nor do they agree on the genome's size. Neither has sequenced -- meaning to determine the order of the chemical subunits -- the DNA of certain short structural regions of the genome, which cannot yet be analyzed.

With the rest of the genome, which contains the human genes and much else, both sides' versions have many small gaps, although these are thought to contain few or no genes. Today's versions are effectively complete representations of the genome but leave much more work to be done.

The two groups even differ on the size of the gene-coding part of the genome. Celera says it is 3.12 billion letters of DNA; the public consortium that it is 3.15 billion units, a letter difference of 30 million. Neither side can yet describe the genome's full size or determine the number of human genes.

The public consortium has also fallen somewhat behind in its goal of attaining a working draft in which 90 percent of the gene-containing part of the genome was sequenced. Its version today has reached only 85 percent, suggesting it was marching to Celera's timetable.

Today's announcement heralded an unexpected truce between the two groups of scientists who have been racing to finish the genome. Veering away from the prospect of asserting rival claims of victory,

the two chose to report simultaneously their attainment of different milestones in their quest.

Celera, a unit of the PE Corporation, has obtained its 3.12 billion letters of the genome in the form of long continuous sequences, mostly about 2 million letters each, but with many small gaps.

A less complete version has been reported by the Human Genome Project, a consortium of academic centers supported largely by the National Institutes of Health and the Wellcome Trust, a medical philanthropy in London. Dr. Collins, the consortium's leader, said its scientists had sequenced 85 percent of the genome in a "working draft," meaning its accuracy will be upgraded later.

Both versions of the human genome meet the important goal of allowing scientists to search them for desired genes, the genetic instructions encoded in the DNA. The consortium's genome data is freely available now. Celera has said it will make a version of its genome sequence freely available at a later date.

In their remarks at the White House, Dr. Collins and Dr. Venter both sought to capture the wider meaning of their work in identifying the eye-glazing stream of A's, G's, C's and T's, the letters in the genome's four-letter code.

"We have caught the first glimpses of our instruction book, previously known only to God," Dr. Collins said. Dr. Venter spoke of his conviction from seeing people die in Vietnam, where he served as a medic, that the human spirit transcended the physiology that is controlled by the genome.

The two genome versions were obtained through prodigious efforts by each side, involving skilled management of teams of scientists working around the clock on a novel technological frontier.

Spurring their efforts was the glittering lure of the genome as a scientific prize, and a rivalry fueled by personal differences and conflicting agendas.

.....

The versions of the human genome produced by the two teams are in different states of completion because of the different methods each used to determine the order of DNA units in the genome.

The consortium chose first to break the genome down into large chunks, called BAC's, which are about 150,000 DNA letters long, and to sequence each BAC separately. This BAC by BAC strategy also required "mapping" the genome, or defining short sequences of milestone DNA that would help show where each BAC belonged on its parent chromosome, the giant DNA molecules of which the genome is composed. ...

Celera's genome has been assembled by a different method, called a whole genome shotgun strategy. Following a scheme proposed by Dr. Eugene Myers and Dr. J. L. Weber, Celera skips the time-consuming mapping stage and breaks the whole genome down into a set of fragments that are 2,000, 10,000 and 50,000 letters long. These fragments are analyzed separately and then assembled in a single mammoth computer run, with a handful of clever tricks to step across the repetitive sequence regions in the DNA.

The approach ideally required sequencing 30 billions units of DNA -- 10 times that in a single genome. Dr. Venter seems to have taken a considerable risk by starting his assembly at the end of March this year when he possessed only a threefold coverage of the genome. He has since raised his total to 4.6-fold coverage.

The decision may have been influenced by Celera's rate of capital expenditure -- the company's electric bill alone is \$100,000 a month -- and by the need to sequence the mouse genome as well so as to offer database clients a two-genome package. The mouse genome is expected to be invaluable for interpreting the human genome, and Dr. Venter said today that Celera would finish sequencing it by the end of the year.

Because of having relatively little of its own data, Celera made use of the consortium's publicly available sequence data and, indirectly, of the positional information contained in the consortium's mapped set of BAC's. The consortium can justifiably share in the credit for Celera's version of the genome, another cogent factor in the logic of today's truce.

Chart: "The Sequence of the Human Genome"

CELLS -- Each has a nucleus containing pairs of 23 chromosomes, one from each parent, that together contain the human genome.

THE SEQUENCE -- A private company says it has ordered all the bases, with some small gaps, and a public effort has roughly 90 percent of the bases in order, in small batches that remain to be assembled.

GENES -- These sections of DNA instruct the cell to make proteins, which perform all the body's essential tasks, like digestion, and determine physical features, like eye color. DNA A molecule with intertwined strands, or double helix shape. Rungs between the strands are bases: adenine (A), thymine (T), guanine (G) and cytosine (C).

CHROMOSOMES -- Each chromosome is made of long chains of deoxyribonucleic acid, or DNA, wrapped around proteins.

Two efforts to determine the order of all the units, or bases, in the human genetic code have reached a milestone.

(Sources:Genome,by Matt Ridley; Steve Duenes/The New York Times)(pg. A21)

The New York Times, June 28, 2000, Wednesday, Late Edition - Final
:Section C; Page 1; Column 2; Business/Financial Desk
Is Everything for Sale?
Patenting a Human Gene As if It Were an Invention
By ANDREW POLLACK

Even though the unraveling of the human genome is only now being completed, much of the genetic code has already been claimed for commerce. In what has often been compared to a land grab, companies and universities have filed for patents on hundreds of thousands of genes and gene fragments.

Amid concerns that such patents are being granted too liberally and that they could hinder innovation, the Patent and Trademark Office is about to implement new guidelines that will make it harder to patent genes. But critics say the new rules are still too lax.

Some opponents say it is a moral affront to patent living things or parts of living things. They argue that a gene is not an invention, but something that exists in nature and should be the common heritage of mankind.

"The notion that some company has a monopoly on my genes is like claiming ownership of the sea," said Jonathan King, a professor of molecular biology at the Massachusetts Institute of Technology.

According to the Patent and Trademark Office, however, the law allows patenting of discoveries from nature, like penicillin, if they are isolated and purified by the hand of man. "From a patent law standpoint, genes are treated just like any other chemical found in nature," said Q. Todd Dickinson, director of the patent office. The patent office has now issued patents on 6,000 genes, about 1,000 of them human genes.

Indeed, genes have been patented for years. Many of the first were for drugs. For example, erythropoietin, for anemia, was made by cloning the gene that coded for that protein. In those early days, scientists knew the function of the protein and worked backward, taking years to isolate a single gene.

But now high-speed gene sequencing and other techniques are allowing genes or fragments of genes to be discovered en masse, without knowing the functions of the proteins produced by the genes.

These genes, rather than representing a product in themselves, are guides to future product discovery. And there is concern that granting exclusive rights based on this upstream work would discourage scientists from doing the harder downstream work -- figuring out what the genes do and using the information to treat disease. Some compare it to granting ownership of the alphabet, rather than of a novel or play.

"You have people who haven't contributed to subsequent discovery being able to lay claim to those discoveries," said Rebecca S. Eisenberg, a law professor at the University of Michigan.

Earlier this year, for example, Human Genome Sciences, based in Rockville, Md., was granted a patent on a gene for a protein that turned out to serve as the entryway for the AIDS virus to infect cells. While the company identified the gene as an immune system receptor, its role in AIDS was not discovered until later by other researchers. Still, Human Genome says it is entitled to royalties on any drug that takes aim at this entry portal -- or even to block development of such a drug.

Some doctors fear that genetic testing of patients could become prohibitively expensive if each gene is patented. Research scientists are already searching for clues to disease by seeing which genes are active in diseased cells. But the chips used to study the matter might become impractical if the rights to each gene had to be licensed.

Even some big drug companies, which normally preach the importance of patents for spurring innovation, have expressed concern about the ramifications of patenting genes.

Dr. Robert I. Levy, senior vice president for science and technology at American Home Products, calls the gene patenting situation a "minefield." Finding out who owns rights to what takes an increasing amount of time, Dr. Levy said at a health care conference in San Francisco earlier this year organized by Chase H & Q, an investment bank. Royalties paid to holders of patents on genes, research mice and other tools can total 12 to 14 percent of the cost of a drug, he said, making some products uneconomical to produce.

As a result of these concerns, 10 big drug companies formed a consortium last year to study differences in the genome between one person and another. These differences, known as single nucleotide polymorphisms, or S.N.P.'s, could be important in testing susceptibility to disease. The consortium is putting them in the public domain to prevent other companies from patenting the S.N.P.'s before their function is known. "It's to ensure we have the basic alphabet," said Arthur Holden, chief executive of the consortium.

Some executives say concerns that innovation will be blocked are unwarranted, pointing out that patents are designed to encourage innovation, not retard it, by giving an incentive to inventors. Also, the contents of patents must be published so that others can learn from them.

William A. Haseltine, president of Human Genome Sciences, the leading patenter of human genes, said the electronics industry continues to innovate rapidly and reduce prices despite numerous patents.

Stephen P. A. Fodor, chairman and chief executive of Affymetrix Inc., which makes gene chips, said only one patent holder had refused to allow its gene to be placed on a chip. Most patent holders want people to do research on their genes in hopes of finding a drug, which would bring really big royalties, he said.

Scientists often make a distinction between the genome itself -- the entire sequence of three billion chemical units in human chromosomes -- and individual genes. It was a confusion between the two that caused the stocks of biotechnology stocks to plummet in March after President Clinton and Prime Minister Tony Blair of Britain issued a statement saying the genome should be publicly available.

White House officials later emphasized that genes themselves, as opposed to the entire genome sequence, should be eligible for patents.

The crucial issue for patent examiners has been how much of the gene's function must be known to satisfy the requirement that any patentable invention be useful. Until now, companies have filed for patents in large numbers without knowing the functions of many genes, contending that, at a minimum, genes make a protein that can be used as animal feed. The patent office has granted some of these patents.

Applications are pending for more than half a million fragments of genes, which are known as expressed sequence tags, said John Doll, director of biotechnology at the patent office. Some applications contend that a fragment is useful because it can allow scientists to find the entire gene. But in response to criticism, the patent office is raising the bar by requiring that more of the gene's function be known. "Nobody would go through the time and cost of isolating a protein from a diseased cell merely to put it in dog food," Mr. Doll said.

Under the new guidelines expected to take effect in the next few months, gene fragments will probably not qualify for patents. But fully characterized genes whose functions are known -- like a gene that

predisposes women to breast cancer and can be used in a diagnostic test -- will continue to be patentable.

There is still a vast ground in the middle, consisting of full-length genes whose function is not known for sure but is guessed at by computer analysis. The National Institutes of Health and the National Academy of Sciences oppose patents on these genes but the patent office said some such patents could be granted.

With the technology in so much flux, Jeremy Rifkin, a critic of the biotechnology industry, has said he plans to file a lawsuit challenging the legality of gene patents. Congress might also revisit the issue. For companies that have staked their futures on owning the rights to genes, and for science in general, a lot is riding on the outcome.

Charts: "Gene Grab"

Amid disputes over patenting human genes, the Patent Office is about to make it harder to lay claim to genes and gene fragments. Still, hundreds of thousands of applications are pending and about 1,000 have been granted. Here are some major patent recipients.

U.S. HUMAN GENE PATENTS ISSUED*

Incyte Pharmaceuticals -- 353
Human Genome Sciences -- 107
SmithKline Beecham -- 60
U.S. Government -- 49
University of California -- 46
Mass. General Hospital -- 45
Genentech -- 39
Chiron -- 38
University of Texas -- 34
Novo Nordisk -- 27

(Source: Human Genome Sciences Inc.)(pg. C12)

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The Independent

November 19, 1995, Sunday

SECTION: FEATURES; Page 75

LENGTH: 2497 words

HEADLINE: SCIENCE : Whose gene is it anyway?; Quietly and unobtrusively, governments and drug companies are staking claim to the ownership of human DNA. Should the double helix of life be patented for research like any other chemical? Tom Wilkie reports

BODY:

LATE IN pregnancy women's bodies undergo radical changes to ease labour during childbirth, triggered by a hormone called relaxin; its genetic recipe is carried in every woman's DNA. But this human gene, whose action helps reshape the birth canal and soften the cervix just before delivery, is the intellectual property of Genentech, a US biotechnology company.

In the US, some 600,000 women carry a gene which may predispose them to develop breast cancer or ovarian cancer. Last year, Mark Skolnick and his colleagues at the University of Utah sorted through human DNA samples and found the gene. It is now the intellectual property of Professor Skolnick's associated company, Myriad Genetics.

In the forests of Panama lives a Guyami Indian woman who is unusually resistant to a virus that causes leukaemia. She was discovered by scientific "gene hunters", engaged in seeking out native peoples whose lives and cultures are threatened with extinction. Though they provided basic medical care, the hunters did not set out to preserve the people, only their genes - which can be kept in cultures of "immortalised" cells grown in the laboratory. In 1993, the US Department of Commerce tried to patent the Guyami woman's genes - and only abandoned the attempt in the face of furious protest from representatives of indigenous peoples.

Nor is it just genetic material that is "owned". In the information age, data is a commodity too. Last month, a unique catalogue of human genes was published in the scientific journal, Nature. It was, one researcher wrote, "the largest body of information about the physical structure of our genetic apparatus that has ever been published". It marks a milestone in humanity's view of our basic biological composition, comparable with the first anatomical atlas of the human body compiled by the Renaissance surgeon Andreas Vesalius in 1543. Though the catalogue was openly published, it

represents but a short guide to a far larger computer database holding the bulk of the genetic information. This resource is owned and operated by a private company, which reserves the right to patent developments made by researchers who log on to its computer.

Quietly and unobtrusively, government departments and international corporations have been staking claim to the ownership of human DNA. Those taking out the patents argue that, without this protection, essential life-saving research won't be possible. Others see this growing trend as a violation of one of civilisation's guiding principles: that human beings and their body parts cannot be "owned".

The rise of the biotechnology industry over the past 20 years is changing the ground rules. Human genes are no longer to be held in common - everyone's property, and no one's. Human genes are big business. Entrepreneurs across America are starting up biotechnology companies whose sole assets are the genes they have dissected out of the double helix strand of DNA, genes whose biochemical instructions their researchers have decoded.

John Gillott, of the Genetic Interest Group, which represents the families of those affected by genetic disease, is shocked by the trend. "Private ownership of a naturally occurring part of the human body is repugnant," he says. "Somebody seeking privately to co-opt a discovery, not an invention, relating to a human body part is something we'd oppose." The GIG doesn't oppose the biotechnology industry, which offers the best hope of a cure or treatment for genetic disease, but its members do believe privatising human genes "is overmonopolistic. It gives a company the ability to control future developments, which creates dangers if that company doesn't develop a product. Information disappears from the public domain."

Like DNA itself, the story has two entwining strands. As researchers deprived of public funds turn to commercial companies to pay for their research, those companies seek to protect their intellectual property for their shareholders' benefit. The privatisation of science has led to the privatisation of genes. This has affected even those scientists still working in publicly funded laboratories, so that governments too are staking their claim to human DNA.

There are striking parallels with the enclosures movement which swept across the English landscape from the 17th to the 19th centuries, parcelling up for private profit what had once been common land over which individuals had rights but nobody had ownership. But while the enclosures were legitimised by the passage of parliamentary bills, it is the officials of the European and American patent offices who have overseen the appropriation into private hands of humanity's genes, extending patent protection from industrial chemicals to DNA, the very blueprint of human life itself.

It is all a far cry from 1953, when, in the Cavendish Laboratory in Cambridge, two brilliant young men - an American birdwatcher turned microbiologist, James D Watson, and an English

physicist, Francis Crick - discovered that the molecule of heredity, DNA, had the structure of a double helix. This was the scientific discovery of the second half of the century, rivalling relativity and quantum mechanics in the pre-war years. The structure of DNA provided the key to its function: DNA could replicate itself by unzipping the two strands of the double helix, then building two new strands on each of the originals, using them as templates.

Four decades on, Watson returned to the forefront of genetics research on a project vastly more ambitious in its scope: to read along the twist of human DNA, find each and every one of the 100,000 or so genes written there, and decipher the instructions each contains. The hope is to identify a complete specification for a human being: the genetic "essence" of humanity (if there is such a thing), loaded on to computer databases, and stored on a small boxed set of CD-Roms. In scope, the research is called the Human Genome Project (the compendium of all human genes is known, scientifically, as the human genome).

Watson agreed in 1989 to head the American contribution to this endeavour. Though much of the work was to be conducted in America, it was conceived as an international enterprise researched by universities and public-sector laboratories worldwide - such as the Medical Research Council here in Britain. Watson emphasised the public character of the enterprise in an article in the journal *Science*: "Early sharing of the human DNA database is much more likely to occur if large-scale. . . efforts are undertaken by all those major industrial nations that want to use this data. . . The nations of the world must see that the human genome belongs to the world's people as opposed to its nations."

In 1992, just two years after Watson wrote his article for *Science*, the human genome project was in effect privatised. The leading figure in the transition from public to private was the American geneticist J Craig Venter. He started out in the public sector, working for the National Institutes of Health (NIH), and hit upon a novel way of identifying the genes active in human brain cells. Every cell in the body contains a copy of all the genes, but "reads" only a few: brain cells don't need to make insulin, for example, as that is the business of the pancreas. Brain cells copy these genes from the double helix into a messenger chemical, RNA, which instructs the cell to produce the protein.

Venter realised that by looking for messenger RNA in human brain cells, and comparing these partial sequences of unknown function with others in a database, it would be possible to identify whole genes. He used the partial sequences as markers to pinpoint the gene's position in the chromosome. His approach had a bonus: there are about 3 billion biochemical "letters" in human DNA, but only about 3 to 5 per cent of this actually represents functional genes. Much of the rest is, apparently, junk, which is not transcribed into messenger RNA. Venter believed that, with his approach, he could identify genes much more rapidly and cut the cost of sequencing an unknown gene from \$ 50,000 to \$ 20. The strategy was controversial, and at the time the NIH feared it would isolate at best only about 8 per cent of active genes, so it refused to finance the scale-up of his strategy.

Venter went ahead on the limited scale with his existing funding. In June 1991, he stunned the scientific world by filing a patent application for more than 2,500 of these sequenced fragments. The result was uproar, because these were not genes but fragments - and neither Venter nor anyone else knew their function. The confusion deepened because the part of the NIH for which Dr Venter worked had supported his action without bothering to tell James Watson, the head of the NIH's National Center for Human Genome Research. Watson adamantly opposed the patent application, because he believed it would render impossible the free flow of scientific information and thus make international collaboration more difficult. The British and the French, two of the other biggest players in the international human gene project, protested. Watson resigned shortly afterwards. With him went the most forceful voice so far for the ideal that "the human genome belongs to the world's people".

The industrialisation of human genes took off within a month of Watson's resignation, when Venter received \$ 85m from HealthCare Investment Corp to set up the Institute for Genomic Research (TIGR) in Gaithersburg, Maryland. Though TIGR is a non-profit institution, its results are channelled through a commercial company, Human Genome Sciences (HGS). A year after TIGR's foundation, in May 1993, SmithKline Beecham committed \$ 125m to HGS, and obtained a 7 per cent equity stake in return for the rights to develop products from the TIGR database. The information in the database offers his company "an extravagance of opportunities", says Dr George Poste, chairman of pharmaceuticals research and development for SmithKline Beecham. The argument in favour of patenting echoes the old defence of the enclosure of agricultural land - that it was necessary if British agriculture was to make the transition from subsistence farming to what we would now call a market-oriented industry. Enclosed commons meant profitable pasture: so private genetic databases "will increase the pace of drug discovery", according to Dr Poste. But although the company last month opened part of its database to other scientists, it has kept the most commercially sensitive part back. As SmithKline Beecham's genetics research leader, Russell Greig, remarked: "Government funds were not available to Craig Venter. His application for research money was turned down. More than \$ 100m has come from the private sector. Why should these investors return the knowledge to the public domain?" Both men acknowledge that the policy is a deliberate one to stymie rival drugs companies.

SmithKline Beecham is not the only company to get involved in genomics. Within a year of Craig Venter's departure from the US government service, more than 30 leading genome scientists who had received research grants from the NIH were involved in deals with venture capitalists leading to the founding of new sequencing companies at a rapid rate. Within a year, the human genome project had evolved from a public into a largely private enterprise.

This evolution has been tracked by Sara Crowther and Sandy Thomas at the Science Policy Research Unit (SPRU) at Sussex University, who are providing a definitive analysis of the trends. Their research documents more than 1,200 human genes that have been patented worldwide, mainly by US and Japanese companies (the European pharmaceutical giants have been surprisingly slow in patenting

human genes). The SPRU researchers have found that details are astonishingly hard to come by, because there is no central register of patented human genes; the process has been uncoordinated and governed by the commercial strategies of individual companies.

But there is a firm commercial imperative, says Dr Poste, the architect of SmithKline Beecham's aggressive expansion into genetics. He points out that it costs between pounds 150m and pounds 200m to develop a new drug. "Without intellectual property protection," he says, "I do not see companies coming forward with new drug development unless they feel there is a protectable asset." But the assets being protected are not the drugs themselves, simply the genes that the company's scientists have isolated and identified. For Dr Poste, identifying a gene "allows you to understand the root cause of disease. By understanding what happens in the gene, you can focus on the events most relevant to the disease." Instead of hunting blindly for chemicals with some biological activity, then developing them into drugs, Dr Poste believes the new science of "genomics" holds the key to rationally designing the drugs of tomorrow.

Some of the drugs developed from human genetics research have been spectacular life-savers. In the mid-1980s, Amgen - an American biotechnology company - isolated the gene for erythropoetin, a key hormone stimulating the production of red blood cells. It has transformed the lives of people suffering from anaemia, particularly those with kidney failure, and is now the biotech industry's blockbuster drug with a market worth \$ 1.5 billion a year.

Many geneticists cannot see why there should be any fuss or unease over the patenting of genes. For them, DNA is a twist of biochemicals in the bottom of a test-tube with no more moral or social significance than any other laboratory reagent. Others have their doubts about the equity of patenting human genes - most notably those clinical geneticists who have to deal with patients in the hospitals and consulting rooms, and therefore see DNA not in the test-tube but in a human being.

Dr Angus Clarke, of the Institute of Medical Genetics at Cardiff, has been involved in the successful hunt for the gene responsible for Huntington's Chorea - a devastating degenerative brain disease, whose victims include the legendary American folk singer Woody Guthrie. "In gene hunts," Dr Clarke says, "a lot of background work has been done by the scientific community as a whole, and a lot of the families have provided samples for free. Both the medical and scientific communities and the families are being pipped at the post by the commercial companies, which come in and cream off the work at the last moment." The early stages of a gene hunt depend on the goodwill of the families to provide tissue samples for genetic analysis. Patenting, in Dr Clarke's view, "is a breach of the implicit trust that this work will be for the general good of human welfare, and not for the enrichment of commercial companies".

Severin Carrell, Genetic data likely to be abused, warns scientist

EMPLOYERS and insurance firms are likely to exploit genetic information gleaned from a massive project to map the human DNA, to screen out potential workers or customers, a leading scientist warned yesterday.

Professor Wendy McGoodwin, executive director of an American medical ethics organisation, told an International Bar Association conference that some US firms were now practising "genetic discrimination" against people likely to be vulnerable to diseases or disabilities.

Her warning came on the first day of a meeting to draft a mock treaty regulating the use of genetic information uncovered by the Human Genome Project, the worldwide effort to map every gene in the human body.

The mock treaty, which will be finalised today, will be forwarded to the United Nations Educational Science and Cultural Organisation (UNESCO) as part of its preparations for a UN treaty to protect human DNA from commercial, military or medical abuse.

The first draft asserts that:

- o Genetic data is the common property of humanity and that no inheritable genetic changes can be made.
- o It is a crime to study or use genetics to harm anyone.
- o No birth should be "suppressed" as a result of genetic data, except on proper medical grounds.
- o The human genome (the total number of human genes), or individual genes, cannot be owned or patented, except in the case of discoveries based on genes.

Prof McGoodwin, head of the Council for Responsible Genetics, said among 200 US cases the CRG knew of instances where companies had sacked, or life assurance firms refused to insure people found to be at risk from an inherited disease.

She said the expanding use of genetic tests meant "a growing number of people are being categorised based on their genetic profile this unfair and unjust practice threatens to create a 'genetic underclass'."

But Nicholas Hastie and Veronica van Heyningen, two Edinburgh-based professors involved in the Human Genome Project, said drafting the treaty was beset by very serious political, social and religious obstacles because many cultures had opposing but equally valid opinions.

Prof Hastie said they were very sympathetic to its intentions, but added: "What is often a positive force for one group can easily become a negative force for another group."

Dr Joachim Feldges, a German lawyer, said many DNA strands and proteins were already commercially patented or had patents applied for.

He said it was also crucial for the future of genetic research that commercial interests were protected since only large pharmaceutical or chemical companies could afford the huge costs of this work, and had the right to expect a profit to justify their investment.

Lambs to the Gene Market;

What do Tracy the sheep and John Moore, have in common? Millions of pounds can be made from cells taken from their bodies. JOHN VIDAL and JOHN CARVEL report on the growing debate about who owns genetic material and whether your body can be patented.

BYLINE: John Vidal And John Carvel

BODY:

JOHN MOORE says he has been "essence-raped". The genial Burl Ives lookalike is effectively the world's first patented man. Yet he was grateful enough in 1976 when, as an oil worker, he came off the Alaskan pipeline to seek treatment for hairy-cell leukaemia. His doctor at the University of California found that Moore's spleen had enlarged from about half a pound to more than 14 pounds. It was removed and Moore recovered.

What he did not know then was that his doctor had been taking samples of the white blood cells from his cancerous organ. He had cultured them into an "immortal" cell line which, unusually, was capable of producing blood proteins of great value in treating immuno-suppressive diseases.

Nor did Moore know that the university had applied for - and been granted - a United States patent on its "invention". He became suspicious only in 1983, when his doctor pressed him to sign over all rights to cell lines taken from his spleen. He refused. Only later did Moore learn that the "Mo line" had been sold to a biotechnology company for \$ 1.7 million: about pounds 1.1 million. He was stunned: "What the doctors had done," he told the Guardian this week, "was to claim that my humanity, my genetic essence, was their invention and their property. They viewed me as a mine from which to extract biological material. I was harvested."

Since then Moore's cell line has made a fortune for its owners and could, he says, generate more than \$ 3 billion of business. Moore, meanwhile, makes a living though a small business marketing beers and soft drinks. He has received only a small settlement and token damages.

Moore sees himself as 20th-century Common Man. "How has life become a commodity?" he asks, rather innocently. "I believe that all genetic material extracted from human beings should belong to society as a whole, and not be patentable."

But who does own your body? Should agri-business or a drug company be allowed to patent a body part or even an entire species? And who should have the rights to genetic material? Such

questions, given immediate life by the experiences of John Moore, are only beginning to be faced. The nascent science of genetics is already raising new social, ethical, legal, political and financial problems that go far beyond individuals such as Moore. They are now to tax Europeans at the highest levels.

For more than a year the European Union and MEPs have been bitterly divided over the extent to which life should be patentable. The EU, heavily lobbied by more than 70 drug and seed companies, wants a directive that would allow the patenting of all human, animal and plant tissue throughout the community. It favours the American Supreme Court ruling that Moore's spleen ceased to be his property when it left his body.

But the European Parliament, by a qualified majority vote, has tabled an amendment. This would establish that genes and cell lines removed from the human body should not count as an "invention"; therefore they should not be patented. Firms could gain commercial protection for specific treatments, but not for the genetic material on which these are based. A conciliation period is about to start.

The pharmaceutical and seed companies argue strongly and uniformly that patents are the starter-motors of the genetic revolution. They are essential, they say, if agriculture, medicine and humankind are to enter a new age of advanced biological technology.

In the last year alone, they point out, genes have been identified that confer varying degrees of predisposition to breast, uterine, ovarian and colon cancer, to osteoporosis and Huntingdon's disease. They are optimistic that genetically modified, pest-resistant plants will soon be bred widely. None of this, they argue, would have been possible without patents.

"The industry depends on patents to protect its investments," says a Swiss patent attorney, who would not be named. "It makes no distinction between machines and life, but says that patents encourage new products. Without them there would be no investment and the new cures and discoveries would not come."

It is a powerful argument, much favoured by governments. But behind the industry's faith that medicine and agriculture can be transformed, and improved, there is increasing concern at the privatisation of life forms and at the speed and direction of developments.

When leading biomedical researchers launched the internationally-funded \$ 2 billion Human Genome Project in the late eighties, the intention was to "decode" all DNA (the store of genetic information). Scientists estimated that this would take about 15 years, that it would be funded largely by governments, and that the information would be freely accessible.

But genetic research is moving at lightning speed. Each new bit of information is being patented and rushed into the marketplace. Within weeks of the discovery of the colon-cancer gene, 10 US companies had bought the rights to develop a screening test for it.

The research is also moving in some strange directions. "Tracy the Sheep", patented by an Edinburgh-based biotech company, produces Alpha 1, an anti-trypsin drug used in treating patients with emphysema, an inherited lung disease. "Herman the bull" has been given a human gene which may allow his daughters to produce in their milk an anti-bacterial drug called lactoferrin. Herman's owners hope it will make breast-milk substitutes more like human milk.

But the torrent of information and developments is coming not from government -funded or university laboratories, but largely from private companies. They are eager to recoup their investments and quick to see the commercial possibilities of the gene rush. Next week an OECD report will predict that biotechnology is moving into its third, perhaps largest domain - the prevention and cleaning up of polluted environments, worth, it estimates, \$ 75 billion a year within five years.

BUT the industry's immediate concerns are over free access to knowledge, the point at which genetic material should become patentable, and what information, if any, should remain in the public domain. Alarm bells rang this year when the director of the Centre for the Study of Human Polymorphisms, a French foundation which holds the DNA fragments of more than 5,000 diabetics, tried to sell the foundation's genetic database to an American biotech company with which it was associated.

The foundations's scientists were outraged and the government had to intervene. The deal was stopped, but no one established who owned the DNA - the families who gave their genes, the research foundation, the scientists, or even the state.

Further warning bells rang when Merck, a leading drugs company, established exclusive rights to patent material taken from much of Costa Rica's forests. They also rang as the International Agricultural Research Corporations, built up in developing countries over decades on UN money, debate whether to patent seed bases containing samples donated freely by third-world farmers.

But they clanged loudest when Dr Craig Venter, a scientist at the US National Institute of Health, applied in 1991 for patents on more than 7,000 fragments of DNA which he and his team had identified with automatic gene-sequencing technology. Venter did not know the function of the fragments beyond that they came from the brain and were crucial for development, including memory and intelligence. Medical institutions and academics were furious, arguing that he was laying claim to vast stretches of life rather than products. Under pressure, the US Patent Office rejected the applications.

But Venter then upped the ante: after filing the applications, he left the NIH to set up the Institute of Genome Research. There he began the mass-sequencing of human genetic material. He has now reportedly compiled the world's largest human genetic data bank, believed to contain 150,000 fragments of DNA sequences - between one-third and half of all the 100,000-odd human genes.

"The data is worth a lot as it is," says Dr Michael Morgan, programme director of the Wellcome Trust. "But if these fragments could be placed on a 'gene map', so researchers knew where they came on the chromosomes, they could be worth many billions."

In April this year, SmithKline Beecham (SB), a major drug company, invested £80 million for an exclusive stake in Venter's database. The company told scientists they could have access to it on one condition: that IGR /SB retained first rights on any patentable discovery.

"In other words," says David King, a former geneticist who edits Gen-Ethics News, "you have a corporation trying to monopolise control of a large part of the whole human genome - literally, the human heritage. Should this become private property?" Yes and no, argues Professor Peter Goodfellow, head of genetics at Cambridge University. "It's like having a library of books and randomly tearing pages out. You may know which books the pages came from but that doesn't tell you much about them."

He argues there should be no patenting of gene sequences without their function having been identified. "To patent the whole genome is not reasonable. You can make a case for a company or an academic who finds out the function of a gene which has economic potential. It could be disastrous. It is an economic and political act to try and stop other people working in the area." A few companies, he argues, are potentially colonising science.

Goodfellow echoes third-world activists who see genetically-engineered, patented crops dominating poor countries in a new version of the Green Revolution of the sixties. "The privatisation of life," says Vandana Shiva, an Indian physicist and author, "is now broadening out and entering uncharted waters which society is not ready for or prepared to accommodate."

Last year, Agracetus, a subsidiary of W G Grace, a giant agro-chemical company, was given the patent on all future genetically engineered cotton. Grace itself has a patent on all products of the common neem tree.

The implications were not lost on Indian farmers. In last year's run-up to the finalisation of the Gatt Uruguay Round, which extended western models of intellectual-property rights into third-world countries, more than 500,000 farmers demonstrated against Grace and other seed companies. They believed the companies were being given the legal right to usurp traditional skills and knowledge. As

Jerry Quisenberry, of the US Department of Agriculture, puts it: "These patents are like Ford getting the patent on the automobile."

FOR many, the gene rush and the patenting of life is offensive. The Hagahai people of Papua New Guinea first made contact with the West in 1984. Five years later, health workers collected blood samples from 24 members of the tribe. These were sent to the gene bank of the US National Institute of Health. Seven people were found to have HTLV-1 in their genetic make-up, a virus it was thought would help fight leukaemia. So last year the Hagahai DNA chain was patented by the US Department of Commerce.

Similar "gene-prospecting" episodes have led to the Solomon Islands' government demanding that patents taken out by the US government on some of its citizens' cell lines be retracted. One on a Guatemalan woman was withdrawn only after pressure. Meanwhile, the Human Genome Diversity Project, a \$ 20 million (pounds 13 million) multi-government funded programme, has been working to establish a gene bank of endangered peoples. It has so far identified 722 indigenous groups. Researchers are now collecting genetic data from tribes including the Penans of Malaysia, Australian aborigines, peoples of the Sahara, Latin American Indians, and the Saamis of northern Norway and Sweden.

The programme is furiously opposed by indigenous groups, many of whom have not even been told they were on the HGDP's hitlist. "After being subject to ethnocide for 500 years, which is why we are endangered, the alternative now is for our DNA to be collected," says Victoria Tauli-Corpuz, who has represented indigenous peoples at the UN. "Why don't they address the causes of our being endangered instead of spending millions to store us? How soon before they apply for intellectual property rights and sell us?"

Yet the first signs of patenting peace may be emerging. In July, Merck announced it would set up a database of genetic information to which everyone, including competitors, would have access. The initiative was welcomed, but widely interpreted by other companies and academics as an attempt by Merck to claw itself back from a weak commercial position. A consortium from within academia and industry is now trying to establish a free-access "gene map" - vital for making sense of gene fragments.

But this is small comfort for the broader public, which has been only marginally involved in the debate, and may still not see the full implications of the revolution. "Much of this genetic information will be perilous," warns Jessica Mathews, a senior fellow at the US Council on Foreign Relations. "It will tell us whether we are likely to die young of an untreatable disease . . . It will reveal predispositions to various forms of mental illness, and what the future holds for a prospective spouse, and the characteristics of an unborn child."

The information will undoubtedly save lives; it will also open up many other possibilities, such as in-vitro fertilisation, to ensure that parents do not pass along dangerous genes. Yet, as Mathews puts it: "The options may only be available to those who can afford to pay for them." Others proffer a more chilling scenario. After some years of screen-testing, as some geneticists see it, the gene pools of the rich and the poor would begin to diverge. At the top there would be improved genomes; and at the bottom, a "genetic underclass".

Still, the revolution is well under way, and we ignore it at our peril. "New genetic technologies will increasingly dominate existing health care and agriculture, adding to existing costs," says David King of Gen-Ethics News. "Private companies, rather than publicly funded science, are now setting the new healthcare and agricultural agenda. The ethical debate is still failing to take the basic commercial facts of life into account."

John Moore, who is US Patent number 4,438,032, would understand that.
LANGUAGE: ENGLISH

LOAD-DATE: November 14, 1994

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September 30, 1994

SECTION: Vol. 265 ; No. 5181 ; Pg. 2035; ISSN: 0036-8075

LENGTH: 2907 words

HEADLINE: The Human Genome Project: Under An International Ethical Microscope; Cover Story

BYLINE: Knoppers, Bartha Maria ; Chadwick, Ruth

BODY:

At first glance, the Human Genome Project (HGP) seems ungoverned by any explicit ethical or legal norms. However, from its beginnings the HGP has spawned a myriad of international (1-9), regional (10-14), and national (15-38) reports and guidelines and, more recently, some legislation (39-47). A review of the last 5 years (December 1989 to July 1994) reveals several areas of international consensus that could serve to harmonize eventual national regulation. Five basic principles underlie this consensus: autonomy, privacy, justice, equity, and quality out of respect for human dignity. Ensuring that these international areas of "commonalty" are reinforced and adopted by the HGP is an ethical and political challenge - a unique opportunity to direct rather than react.

Autonomy. Genetic testing and the resulting information is highly personal. Because this information could be used to discriminate against individuals on socioeconomic grounds - for example, in selecting employees, immigrants, or insurance applicants - there has been a call for voluntary testing based on autonomous choice, with the participants having full information. The "right" not to know is increasingly raised as a corollary of autonomy. Most genetic information is only predictive and probabilistic - a certain gene may increase the likelihood of developing a disease. Indeed, it is this imprecise nature of genetic information that necessitates further protection against social pressures and a reaffirmation of informed consent procedures. Therefore, counseling has become a prerequisite to the decision to undergo testing. An exception to this principle of individual consent is newborn screening programs for immediately treatable disorders. A recent report from the United States, however, has explicitly recommended that parental consent be obtained (34).

There is consensus limiting genetic testing (including prenatal testing) to tests that are medically therapeutic. Which tests are considered to be therapeutic then remains to be decided by individual countries according to cultural, social, and political norms. Both France (41, 42) and Norway (45) have passed legislation centralizing the elaboration of such "therapeutic" criteria in governmental bodies. Adherence to these criteria effectively curtails the use of genetic tests for sex selection or trait

enhancement.

Most genetic testing is, further limited to individuals at high risk for serious disorders. Furthermore, there is consensus that predisposition testing should be limited to diseases that are treatable or preventable. Somatic cell therapy is for the most part considered experimental and thus subject to stringent limitations (used only in serious monogenic conditions) as well as to additional safeguards and oversight. Preimplantation embryo testing remains controversial and severely constrained but not totally prohibited, except in Germany (44).

Privacy. Respect for the privacy of the person and for the confidentiality of genetic information is crucial. Although the results of genetic tests could be considered a form of sensitive medical information, genetic testing also reveals information about other family members and is of importance to insurers and employers. Some guidelines would prohibit any communication to all third parties without consent (8, 13, 14, 24, 30). Most guidelines, however, advocate the communication of relevant information to family members at high risk for serious harm without the consent of the patient or of the research participant only when all attempts to elicit voluntary communication have failed. All other disclosures of information - or use of DNA samples (unless anonymous) - would require consent. Furthermore, the collection, storage, and dissemination of genetic information should be subject to special procedures of coding, of removing identifiers, and of obtaining consent for new uses.

In the areas of insurance and employment, the presence or absence of universal health insurance and social security shapes current guidelines. Little is known of the potential discriminatory or stigmatizing effects (or even benefits) of access to genetic information by insurers and employers. Even countries with universal health care recommend rejecting access to or direct testing by employers and insurers for life and disability insurance. For example, reports from both the Netherlands (28) and the United Kingdom (32) have called for a moratorium on requiring disclosure where life insurance policies are proportionate to income or of moderate size. Only Belgium has specifically included a prohibition on testing or access to genetic information by insurers in its Civil Code (40). The American NIH-DOE report recommends that "Information about past, present or future health status, including genetic information, should not be used to deny health care coverage or services to anyone" (35). Finally, genetic identity testing confirms either filial links (paternity or maternity) or presence at the scene of a crime (forensic testing) and utilizes the same techniques as medical testing sampling, restriction fragment length polymorphisms (RFLPs), markers, and polymerase chain reaction amplification. Similar privacy concerns arise (38). France has passed legislation requiring court orders for such identity testing (41).

Justice. The international community is united in its concern for vulnerable populations, such as incompetent adults or minors, and for future generations. Although overprotection could make research with these populations impossible, the fact that they cannot decide for themselves and are often in institutions mandates special protection - but not exclusion. Furthermore, in the absence of treatment or

prevention, the presymptomatic testing of children for late onset disease has not been recommended. Where possible, both children and incompetent adults should participate in decision-making.

The continuing debate on the desirability of germline modification is sparked by a desire for justice toward future generations and prevention of eugenic uses of the technology. Although most guidelines advocate a total prohibition of germline modification, others have taken a more cautious approach, suggesting continuing discussion of its technical and ethical aspects and the development of adequate safeguards. The 1991 CIOMS Declaration of Inuyama (8) considered continued discussion of its technical and ethical aspects to be essential. Nevertheless, Austria (39), France (41), Germany (44), Norway (45), and Switzerland (47) prohibit germline alteration by statute.

Equity. Although not explicitly mentioned as a governing principle, equity is a recurring part of the ongoing discussion. How do we ensure equity of access to genetic research, testing, and information; equal costs; equal resources; and equal sharing of information? There is a potential danger and the accompanying fear of genetic testing increasing social inequality, of access to testing being linked to willingness to terminate a pregnancy or to financial considerations, and of denying social welfare benefits for refusal to undergo testing. There is also the possibility of creating unequal burdens for minority ethnic groups when specific genes are more prevalent in one group (21).

Most countries and regional and international bodies oppose attempts to patent anonymous human sequences as an affront to human dignity and in order to ensure a free flow of information between researchers. However, only in France does the Code on intellectual property declare unpatentable "... the human body, its elements and products as well as knowledge of the partial or total structure of a human gene..." (41).

Finally, participation in generic testing should be based on understanding, thus, mandating widespread education and training efforts as an essential foundation for the development of any public policy or legislation.

Quality. Again, although not an explicit or common principle, there is a growing realization that accredited and licensed laboratories and personnel, professional oversight and monitoring, and ethical review are critically required. Specific criteria for test sensitivity, specificity, and effectiveness have also been recommended (12, 13, 16, 21, 29, 30, 34, 42). Ultimately, respect for the human person begins here.

Conclusion. This overview does not do justice to the complexity of these issues, but nevertheless indicates common international positions on these extremely controversial aspects of the HGP. Considering that most national governments have not yet addressed these questions, the emergence of these common approaches is encouraging. What remains as an urgent matter, however, is

the codification of their principles in an international instrument. Individual countries could then interpret them in their own domestic legislation or ensure their application through other mechanisms of review and oversight. The international bioethics committee of Unesco is moving in this direction.

Ad hoc country-by-country approaches or a later transnational harmonization of policy underestimate the universal, social importance of the HGP. Normative, international principles provide direction and signify political will to do more than pay lip service to legitimate public concerns. The accountability of the HGP is at stake. So are our present obligations of stewardship to humankind and to future generations. This unique opportunity to provide principled direction must not be lost.

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National Genome Research Project
Ethical, Legal and Social Implications (ELSI) Research

TITLE: Goals and Related Research Questions and Education Activities for the Next Five Years of the U.S. Human Genome Project (visited November 30, 1998) <<http://www.nhgri.nih.gov/98plan/elsi>>

BODY:

This document was prepared by the [ELSI Research Planning and Evaluation Group \(ERPEG\)](#) to illustrate more fully the breadth and complexity of the ELSI goals. Each goal statement is accompanied by examples of possible research questions and education activities. These examples are meant only to give a flavor of the possible issues to be addressed, and are not, in any sense, exhaustive or comprehensive.

a. Examine the issues surrounding the completion of the human DNA sequence and the study of human genetic variation.

Examples of Research Questions and Education Activities:

What strategies should be used to balance the needs for privacy and safety of individuals and groups with the scientific goals of creating resources for DNA sequencing and human variation research? (e.g. *How should research participants be informed about the fact that they may not be able to remain anonymous given the availability of their DNA sequence?*)

Will the discovery of DNA polymorphisms influence current concepts of race and ethnicity? (e.g. *How will individuals and groups respond to potential challenges to or affirmations of their racial and/or ethnic self-identification, based on new genetic information?*)

What new concerns are being raised by the commercialization and patenting of DNA sequence information in the public, academic and private sectors? (e.g. *What are the implications of domestic and international policies for the ownership of DNA sequence information?*)

What are the most effective strategies for educating health professionals, policy makers, the media, students, and the public regarding the interpretation and use of information about genetic variation?

b. Examine issues raised by the integration of genetic technologies and information into health care and public health activities.Examples of Research Questions and Education Activities:

What are the clinical and societal implications of identifying common polymorphisms that predict disease susceptibility or resistance? (*e.g. Will genetic testing promote risky behavior in persons found to be genetically resistant to particular pathogens, such as HIV, or environmental hazards, such as cigarette smoke?*)

What are the potential risks and benefits of integrating genetic testing for complex diseases, behaviors, and other traits into health care? (*e.g. What are the individual and social implications of developing pharmacologic treatments that are tailored to patients' genotypes?*)

What are the most effective strategies for integrating genetic information and technologies into clinical settings in ways that help practitioners see health and disease in a genetic context and what will be the ethical, legal and social consequences of their increasing availability and use? (*e.g. How will individuals be benefited or harmed by the integration of genetic information into individual medical records, managed care organization records, and public health registries?*)

Will the availability of genetic information influence provider practice, change patient behavior, reduce morbidity and mortality, and/or reduce health care costs?

What factors influence: who develops and regulates new reproductive genetic technologies; which technologies are incorporated into medical practice; and which technologies are accepted or rejected by the public? (*e.g. What issues may arise as a result of the development and use of germ-line gene therapies? How might the availability of these therapies affect concepts of disability?*)

What are the best strategies for educating health care providers, patients and the general public about the use of genetic information and technologies? (*e.g. What are the most effective mechanisms*

for educating providers, patients and the public about the uncertainties inherent in genetic risk information?)

c. Examine issues raised by the integration of knowledge about genomics and gene- environment interactions into non-clinical settings.

Examples of Research Questions and Education Activities:

What are appropriate and inappropriate uses of genetic testing in the employment setting? (*e.g. Are there conditions under which it might be ethical and/or legal to use genetic testing to identify those employees who may have a susceptibility to workplace hazards? What implications does the Americans with Disabilities Act have for such testing?*)

What issues emerge from the collection, storage and use of blood and other tissue samples, including collections by the military, civil and criminal justice systems, commercial entities, and federal and state public health agencies?

What are the implications of obtaining genetic information for use in adoption proceedings and establishment of child custody and child support?

What are the implications of potential commercial applications resulting from the availability of genetic information about individuals and groups? (*e.g. Should commercial companies have access to personal genetic data for targeted product marketing?*)

What are the potential uses and abuses of genetic information in educational settings? (*e.g. Is placement of students on the basis of genetic data any more or less beneficial or harmful than tracking on the basis of traditional categories or classifications?*)

d. Explore ways in which new genetic knowledge may interact with a variety of philosophical, theological, and ethical perspectives.

Examples of Research Questions and Education Activities:

Will continuing research in molecular biology and functional genomics affect how individuals and society view the relationship of

humans to one another and to the rest of the living world? (*e.g. As new genetic technologies and information provide additional support for the central role of evolution in shaping the human species, how will society accommodate the challenges that this may pose to traditional religious and cultural views of humanity?*)

What are the implications of behavioral genetics for traditional notions of personal, social and legal responsibility? (*e.g. What role will the discovery of putative genetic predispositions to violent behavior play in criminal prosecutions?*)

What are the implications of genetic enhancement technologies for conceptions of humanity? (*e.g. What ethical or theological challenges might be posed by the ability to alter the genetic makeup of future generations?*)

e. Explore how socioeconomic factors and concepts of race and ethnicity influence the use and interpretation of genetic information, the utilization of genetic services, and the development of policy.

Examples of Research Questions and Education Activities:

How are individual views about the value of genetic research, the importance of access to genetic services, and the meaning and relevance of genetic information affected by concepts of race and ethnicity and by socioeconomic factors? (*e.g. How have past misuses of genetic science and information influenced perceptions of genetic research and services among individuals from diverse communities and groups?*)

How is the impact of genetic testing in clinical and non-clinical settings affected by concepts of race and ethnicity and other social or economic factors? (*e.g. Will particular communities and groups be more vulnerable to employment discrimination based on genotype?*)

In what ways are access to, and use of, genetic information and services affected by ethnicity, race, or socioeconomic status?
What are the most effective strategies to ensure that genetic counseling and other genetic services are culturally sensitive and

relevant?

I. Introduction to the Information Society:

Information Economics

Selling Wine Without Bottles

The Economy of Mind on the Global Net

by John Perry Barlow

"If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power called an idea, which an individual may exclusively possess as long as he keeps it to himself; but the moment it is divulged, it forces itself into the possession of everyone, and the receiver cannot dispossess himself of it. Its peculiar character, too, is that no one possesses the less, because every other possesses the whole of it. He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me. That ideas should freely spread from one to another over the globe, for the moral and mutual instruction of man, and improvement of his condition, seems to have been peculiarly and benevolently designed by nature, when she made them, like fire, expansible over all space, without lessening their density at any point, and like the air in which we breathe, move, and have our physical being, incapable of confinement or exclusive appropriation. Inventions then cannot, in nature, be a subject of property."

--Thomas Jefferson

Throughout the time I've been groping around Cyberspace, there has remained unsolved an immense conundrum which seems to be at the root of nearly every legal, ethical, governmental, and social vexation to be found in the Virtual World. I refer to the problem of digitized property.

The riddle is this: if our property can be infinitely

reproduced and instantaneously distributed all over the planet without cost, without our knowledge, without its even leaving our possession, how can we protect it? How are we going to get paid for the work we do with our minds? And, if we can't get paid, what will assure the continued creation and distribution of such work?

Since we don't have a solution to what is a profoundly new kind of challenge, and are apparently unable to delay the galloping digitization of everything not obstinately physical, we are sailing into the future on a sinking ship.

This vessel, the accumulated canon of copyright and patent law, was developed to convey forms and methods of expression entirely different from the vaporous cargo it is now being asked to carry. It is leaking as much from within as without.

Legal efforts to keep the old boat floating are taking three forms: a frenzy of deck chair rearrangement, stern warnings to the passengers that if she goes down, they will face harsh criminal penalties, and serene, glassy-eyed denial.

Intellectual property law cannot be patched, retrofitted, or expanded to contain the gasses of digitized expression any more than real estate law might be revised to cover the allocation of broadcasting spectrum. (Which, in fact, rather resembles what is being attempted here.) We will need to develop an entirely new set of methods as befits this entirely new set of circumstances.

Most of the people who actually create soft property--the programmers, hackers, and Net

surfers--already know this. Unfortunately, neither the companies they work for nor the lawyers these companies hire have enough direct experience with immaterial goods to understand why they are so problematic. They are proceeding as though the old laws can somehow be made to work, either by grotesque expansion or by force. They are wrong.

The source of this conundrum is as simple as its solution is complex. Digital technology is detaching information from the physical plane, where property law of all sorts has always found definition.

Throughout the history of copyrights and patents, the proprietary assertions of thinkers have been focused not on their ideas but on the expression of those ideas. The ideas themselves, as well as facts about the phenomena of the world, were considered to be the collective property of humanity. One could claim franchise, in the case of copyright, on the precise turn of phrase used to convey a particular idea or the order in which facts were presented.

The point at which this franchise was imposed was that moment when the "word became flesh" by departing the mind of its originator and entering some physical object, whether book or widget. The subsequent arrival of other commercial media besides books didn't alter the legal importance of this moment. Law protected expression and, with few (and recent) exceptions, to express was to make physical.

Protecting physical expression had the force of convenience on its side. Copyright worked well because, Gutenberg notwithstanding, it was hard to make a book. Furthermore, books froze their contents into a condition which was as challenging to alter as it was to reproduce. Counterfeiting or distributing counterfeit volumes were obvious and visible activities, easy enough to catch somebody in the act of doing. Finally, unlike unbounded words or

images, books had material surfaces to which one could attach copyright notices, publisher's marques, and price tags.

Mental to physical conversion was even more central to patent. A patent, until recently, was either a description of the form into which materials were to be rendered in the service of some purpose or a description of the process by which rendition occurred. In either case, the conceptual heart of patent was the material result. If no purposeful object could be rendered due to some material limitation, the patent was rejected. Neither a Klein bottle nor a shovel made of silk could be patented. It had to be a thing and the thing had to work.

Thus the rights of invention and authorship adhered to activities in the physical world. One didn't get paid for ideas but for the ability to deliver them into reality. For all practical purposes, the value was in the conveyance and not the thought conveyed.

In other words, the bottle was protected, not the wine.

Now, as information enters Cyberspace, the native home of Mind, these bottles are vanishing. With the advent of digitization, it is now possible to replace all previous information storage forms with one meta-bottle: complex--and highly liquid--patterns of ones and zeros.

Even the physical/digital bottles to which we've become accustomed, floppy disks, CD-ROM's, and other discrete, shrink-wrappable bit-packages, will disappear as all computers jack in to the global Net. While the Internet may never include every single CPU on the planet, it is more than doubling every year and can be expected to become the principal medium of information conveyance if, eventually, the only one.

Once that has happened, all the goods of the

Information Age--all of the expressions once contained in books or film strips or records or newsletters--will exist either as pure thought or something very much like thought: voltage conditions darting around the Net at the speed of light, in conditions which one might behold in effect, as glowing pixels or transmitted sounds, but never touch or claim to "own" in the old sense of the word.

Some might argue that information will still require some physical manifestation, such as its magnetic existence on the titanic hard disks of distant servers, but these are bottles which have no macroscopically discrete or personally meaningful form.

Some will also argue that we have been dealing with unbottled expression since the advent of radio, and they would be right. But for most of the history of broadcast, there was no convenient way to capture soft goods from the electromagnetic ether and reproduce them in anything like the quality available in commercial packages. Only recently has this changed and little has been done legally or technically to address the change.

Generally, the issue of consumer payment for broadcast products was irrelevant. The consumers themselves were the product. Broadcast media were supported either by selling the attention of their audience to advertisers, using government to assess payment through taxes, or the whining mendicancy of annual donor drives.

All of the broadcast support models are flawed. Support either by advertisers or government has almost invariably tainted the purity of the goods delivered. Besides, direct marketing is gradually killing the advertiser support model anyway.

Broadcast media gave us another payment method for a virtual product in the royalties which broadcasters pay songwriters through such organizations as ASCAP and BMI. But, as

a member of ASCAP, I can assure you this is not a model which we should emulate. The monitoring methods are wildly approximate. There is no parallel system of accounting in the revenue stream. It doesn't really work. Honest.

In any case, without our old methods of physically defining the expression of ideas, and in the absence of successful new models for non-physical transaction, we simply don't know how to assure reliable payment for mental works. To make matters worse, this comes at a time when the human mind is replacing sunlight and mineral deposits as the principal source of new wealth.

Furthermore, the increasing difficulty of enforcing existing copyright and patent laws is already placing in peril the ultimate source of intellectual property, the free exchange of ideas.

That is, when the primary articles of commerce in a society look so much like speech as to be indistinguishable from it, and when the traditional methods of protecting their ownership have become ineffectual, attempting to fix the problem with broader and more vigorous enforcement will inevitably threaten freedom of speech.

The greatest constraint on your future liberties may come not from government but from corporate legal departments laboring to protect by force what can no longer be protected by practical efficiency or general social consent.

Furthermore, when Jefferson and his fellow creatures of The Enlightenment designed the system which became American copyright law, their primary objective was assuring the widespread distribution of thought, not profit. Profit was the fuel which would carry ideas into the libraries and minds of their new republic. Libraries would purchase books, thus rewarding the authors for their work in assembling ideas, which otherwise "incapable of confinement" would then become freely

available to the public. But what is the role of libraries in the absence of books? How does society now pay for the distribution of ideas if not by charging for the ideas themselves?

Additionally complicating the matter is the fact that along with the physical bottles in which intellectual property protection has resided, digital technology is also erasing the legal jurisdictions of the physical world, and replacing them with the unbounded and perhaps permanently lawless seas of Cyberspace.

In Cyberspace, there are not only no national or local boundaries to contain the scene of a crime and determine the method of its prosecution, there are no clear cultural agreements on what a crime might be. Unresolved and basic differences between European and Asian cultural assumptions about intellectual property can only be exacerbated in a region where many transactions are taking place in both hemispheres and yet, somehow, in neither.

Even in the most local of digital conditions, jurisdiction and responsibility are hard to assess. A group of music publishers filed suit against CompuServe this fall for it having allowed its users to upload musical compositions into areas where other users might get them. But since CompuServe cannot practically exercise much control over the flood of bits which pass between its subscribers, it probably shouldn't be held responsible for unlawfully "publishing" these works.

Notions of property, value, ownership, and the nature of wealth itself are changing more fundamentally than at any time since the Sumerians first poked cuneiform into wet clay and called it stored grain. Only a very few people are aware of the enormity of this shift and fewer of them are lawyers or public officials.

Those who do see these changes must prepare responses for the legal and social

confusion which will erupt as efforts to protect new forms of property with old methods become more obviously futile, and, as a consequence, more adamant.

>From Swords to Writs to Bits

Humanity now seems bent on creating a world economy primarily based on goods which take no material form. In doing so, we may be eliminating any predictable connection between creators and a fair reward for the utility or pleasure others may find in their works.

Without that connection, and without a fundamental change in consciousness to accommodate its loss, we are building our future on furor, litigation, and institutionalized evasion of payment except in response to raw force. We may return to the Bad Old Days of property.

Throughout the darker parts of human history, the possession and distribution of property was a largely military matter. "Ownership" was assured those with the nastiest tools, whether fists or armies, and the most resolute will to use them. Property was the divine right of thugs.

By the turn of the First Millennium A.D., the emergence of merchant classes and landed gentry forced the development of ethical understandings for the resolution of property disputes. In the late Middle Ages, enlightened rulers like England's Henry II began to codify this unwritten "common law" into recorded canons. These laws were local, but this didn't matter much as they were primarily directed at real estate, a form of property which is local by definition. And which, as the name implied, was very real.

This continued to be the case as long as the origin of wealth was agricultural, but with dawning of the Industrial Revolution, humanity began to focus as much on means as ends. Tools acquired a new social value and, thanks to their own development, it became possible to

duplicate and distribute them in quantity.

To encourage their invention, copyright and patent law were developed in most western countries. These laws were devoted to the delicate task of getting mental creations into the world where they could be used--and enter the minds of others--while assuring their inventors compensation for the value of their use. And, as previously stated, the systems of both law and practice which grew up around that task were based on physical expression.

Since it is now possible to convey ideas from one mind to another without ever making them physical, we are now claiming to own ideas themselves and not merely their expression. And since it is likewise now possible to create useful tools which never take physical form, we have taken to patenting abstractions, sequences of virtual events, and mathematical formulae--the most un-real estate imaginable.

In certain areas, this leaves rights of ownership in such an ambiguous condition that once again property adheres to those who can muster the largest armies. The only difference is that this time the armies consist of lawyers.

Threatening their opponents with the endless Purgatory of litigation, over which some might prefer death itself, they assert claim to any thought which might have entered another cranium within the collective body of the corporations they serve. They act as though these ideas appeared in splendid detachment from all previous human thought. And they pretend that thinking about a product is somehow as good as manufacturing, distributing, and selling it.

What was previously considered a common human resource, distributed among the minds and libraries of the world, as well as the phenomena of nature herself, is now being fenced and deeded. It is as though a new class of enterprise had arisen which claimed to own air and water.

What is to be done? While there is a certain grim fun to be had in it, dancing on the grave of copyright and patent will solve little, especially when so few are willing to admit that the occupant of this grave is even deceased and are trying to up by force what can no longer be upheld by popular consent.

The legalists, desperate over their slipping grip, are vigorously trying to extend it. Indeed, the United States and other proponents of GATT are making adherence to our moribund systems of intellectual property protection a condition of membership in the marketplace of nations. For example, China will be denied Most Favored nation trading status unless they agree to uphold a set of culturally alien principles which are no longer even sensibly applicable in their country of origin.

In a more perfect world, we'd be wise to declare a moratorium on litigation, legislation, and international treaties in this area until we had a clearer sense of the terms and conditions of enterprise in Cyberspace. Ideally, laws ratify already developed social consensus. They are less the Social Contract itself than a series of memoranda expressing a collective intent which has emerged out of many millions of human interactions.

Humans have not inhabited Cyberspace long enough or in sufficient diversity to have developed a Social Contract which conforms to the strange new conditions of that world. Laws developed prior to consensus usually serve the already established few who can get them passed and not society as a whole.

To the extent that either law or established social practice exists in this area, they are already in dangerous disagreement. The laws regarding unlicensed reproduction of commercial software are clear and stern...and rarely observed. Software piracy laws are so practically unenforceable and breaking them has become so socially acceptable that only a thin minority appears compelled, either by fear

or conscience, to obey them.

I sometimes give speeches on this subject, and I always ask how many people in the audience can honestly claim to have no unauthorized software on their hard disks. I've never seen more than ten percent of the hands go up.

Whenever there is such profound divergence between the law and social practice, it is not society that adapts. And, against the swift tide of custom, the Software Publishers' current practice of hanging a few visible scapegoats is so obviously capricious as to only further diminish respect for the law.

Part of the widespread popular disregard for commercial software copyrights stems from a legislative failure to understand the conditions into which it was inserted. To assume that systems of law based in the physical world will serve in an environment which is as fundamentally different as Cyberspace is a folly for which everyone doing business in the future will pay.

As I will discuss in the next segment, unbounded intellectual property is very different from physical property and can no longer be protected as though these differences did not exist. For example, if we continue to assume that value is based on scarcity, as it is with regard to physical objects, we will create laws which are precisely contrary to the nature of information, which may, in many cases, increase in value with distribution.

The large, legally risk-averse institutions most likely to play by the old rules will suffer for their compliance. The more lawyers, guns, and money they invest in either protecting their rights or subverting those of their opponents, the more commercial competition will resemble the Kwakiutl Potlatch Ceremony, in which adversaries competed by destroying their own possessions. Their ability to produce new technology will simply grind to a halt as every move they make drives them deeper into a tar

pit of courtroom warfare.

Faith in law will not be an effective strategy for high tech companies. Law adapts by continuous increments and at a pace second only to geology in its stateliness. Technology advances in the lunging jerks, like the punctuation of biological evolution grotesquely accelerated. Real world conditions will continue to change at a blinding pace, and the law will get further behind, more profoundly confused. This mismatch is permanent.

Promising economies based on purely digital products will either be born in a state of paralysis, as appears to be the case with multimedia, or continue in a brave and willful refusal by their owners to play the ownership game at all.

In the United States one can already see a parallel economy developing, mostly among small fast moving enterprises who protect their ideas by getting into the marketplace quicker than their larger competitors who base their protection on fear and litigation.

Perhaps those who are part of the problem will simply quarantine themselves in court while those who are part of the solution will create a new society based, at first, on piracy and freebooting. It may well be that when the current system of intellectual property law has collapsed, as seems inevitable, that no new legal structure will arise in its place.

But something will happen. After all, people do business. When a currency becomes meaningless, business is done in barter. When societies develop outside the law, they develop their own unwritten codes, practices, and ethical systems. While technology may undo law, technology offers methods for restoring creative rights.

A Taxonomy of Information

It seems to me that the most productive thing to

do now is to look hard into the true nature of what we're trying to protect. How much do we really know about information and its natural behaviors?

What are the essential characteristics of unbounded creation? How does it differ from previous forms of property? How many of our assumptions about it have actually been about its containers rather than their mysterious contents? What are its different species and how does each of them lend itself to control? What technologies will be useful in creating new virtual bottles to replace the old physical ones?

Of course, information is, by its nature, intangible and hard to define. Like other such deep phenomena as light or matter, it is a natural host to paradox. And as it is most helpful to understand light as being both a particle and a wave, an understanding of information may emerge in the abstract congruence of its several different properties which might be described by the following three statements:

- < **Information is an activity.**
- < **Information is a life form.**
- < **Information is a relationship.**

In the following section, I will examine each of these.

I. INFORMATION IS AN ACTIVITY

Information Is a Verb, Not a Noun.

Freed of its containers, information is obviously not a thing. In fact, it is something which happens in the field of interaction between minds or objects or other pieces of information.

Gregory Bateson, expanding on the information theory of Claude Shannon, said, "Information is a difference which makes a difference." Thus, information only really exists in the Δ [delta]. The making of that difference is an activity within a relationship. Information is an action which occupies time rather than a state of being which occupies physical space, as is the case with hard goods. It is the pitch, not the baseball, the dance, not the dancer.

Information Is Experienced, Not Possessed

Even when it has been encapsulated in some static form like a book or a hard disk, information is still something which happens to you as you mentally decompress it from its storage code. But, whether it's running at gigabits per second or words per minute, the actual decoding is a process which must be performed by and upon a mind, a process which must take place in time.

There was a cartoon in the Bulletin of Atomic Scientists a few years ago which illustrated this point beautifully. In the drawing, a holdup man trains his gun on the sort of bespectacled fellow you'd figure might have a lot of information stored in his head. "Quick," orders the bandit, "Give me all your ideas."

Information Has To Move

Sharks are said to die of suffocation if they stop swimming, and the same is nearly true of information. Information which isn't moving ceases to exist as anything but potential...at least until it is allowed to move again. For this reason, the practice of information hoarding, common in bureaucracies, is an especially wrong-headed artifact of physically-based value systems.

Information is Conveyed by Propagation,

Not Distribution

The way in which information spreads is also very different from the distribution of physical goods. It moves more like something from nature than from a factory. It can concatenate like falling dominos or grow in the usual fractal lattice, like frost spreading on a window, but it cannot be shipped around like widgets, except to the extent that it can be contained in them. It doesn't simply move on. It leaves a trail of itself everywhere it's been.

The central economic distinction between information and physical property is the ability of information to be transferred without leaving the possession of the original owner. If I sell you my horse, I can't ride him after that. If I sell you what I know, we both know it.

II. INFORMATION IS A LIFE FORM

Information wants to be free.

Stewart Brand is generally credited with this elegant statement of the obvious, recognizing both the natural desire of secrets to be told and the fact that they might be capable of possessing something like a "desire" in the first place.

English Biologist and Philosopher Richard Dawkins proposed the idea of "memes," self-replicating, patterns of information which propagate themselves across the ecologies of mind, saying they were like life forms.

I believe they are life forms in every respect but a basis in the carbon atom. They self-reproduce, they interact with their surroundings and adapt to them, they mutate, they persist. Like any other life form they evolve to fill the possibility spaces of their local environments, which are, in this case the surrounding belief systems and cultures of their

hosts, namely, us.

Indeed, the sociobiologists like Dawkins make a plausible case that carbon-based life forms are information as well, that, as the chicken is an egg's way of making another egg, the entire biological spectacle is just the DNA molecule's means of copying out more information strings exactly like itself.

Information Replicates into the Cracks of Possibility

Like DNA helices, ideas are relentless expansionists, always seeking new opportunities for lebensraum. And, as in carbon-based nature, the more robust organisms are extremely adept at finding new places to live. Thus, just as the common housefly has insinuated itself into practically every ecosystem on the planet, so has the meme of "life after death" found a niche in most minds, or psycho-ecologies.

The more universally resonant an idea or image or song, the more minds it will enter and remain within. Trying to stop the spread of a really robust piece of information is about as easy as keeping killer bees South of the Border. The stuff just leaks.

Information Wants To Change

If ideas and other interactive patterns of information are indeed life forms, they can be expected to evolve constantly into forms which will be more perfectly adapted to their surroundings. And, as we see, they are doing this all the time.

But for a long time, our static media, whether carvings in stone, ink on paper, or dye on celluloid, have strongly resisted the evolutionary impulse, exalting as a consequence the author's ability to determine the finished

product. But, as in an oral tradition, digitized information has no "final cut."

Digital information, unconstrained by packaging, is a continuing process more like the metamorphosing tales of prehistory than anything which will fit in shrink wrap. From the Neolithic to Gutenberg, information was passed on, mouth to ear, changing with every re-telling (or re-singing). The stories which once shaped our sense of the world didn't have authoritative versions. They adapted to each culture in which they found themselves being told.

Because there was never a moment when the story was frozen in print, the so-called "moral" right of storytellers to keep the tale their own was neither protected nor recognized. The story simply passed through each of them on its way to the next, where it would assume a different form. As we return to continuous information, we can expect the importance of authorship to diminish. Creative people may have to renew their acquaintance with humility.

But our system of copyright makes no accommodation whatever for expressions which don't at some point become "fixed" nor for cultural expressions which lack a specific author or inventor.

Jazz improvisations, standup comedy routines, mime performances, developing monologues, and unrecorded broadcast transmissions all lack the Constitutional requirement of fixation as a "writing". Without being fixed by a point of publication the liquid works of the future will all look more like these continuously adapting and changing forms and will therefore exist beyond the reach of copyright.

Copyright expert Pamela Samuelson tells of having attended a conference last year convened around the fact that Western countries may legally appropriate the music, designs, and biomedical lore of aboriginal people without compensation to their tribe of

origin since that tribe is not an "author" or "inventor."

But soon most information will be generated collaboratively by the cyber-tribal hunter-gatherers of Cyberspace. Our arrogant legal dismissal of the rights of "primitives" will be back to haunt us soon.

Information is Perishable

With the exception of the rare classic, most information is like farm produce. Its quality degrades rapidly both over time and in distance from the source of production. But even here, value is highly subjective and conditional. Yesterday's papers are quite valuable to the historian. In fact, the older they are, the more valuable they become. On the other hand, a commodities broker might consider news of an event which is more than an hour old to have lost any relevance.

III. INFORMATION IS A RELATIONSHIP

Meaning Has Value and Is Unique to Each Case

In most cases, we assign value to information based on its meaningfulness. The place where information dwells, the holy moment where transmission becomes reception, is a region which has many shifting characteristics and flavors depending on the relationship of sender and receiver, the depth of their interactivity.

Each such relationship is unique. Even in cases where the sender is a broadcast medium, and no response is returned, the receiver is hardly passive. Receiving information is often as creative an act as generating it.

The value of what is sent depends entirely on the extent to which each individual receiver has the receptors...shared terminology, attention, interest, language, paradigm...necessary to render what is received meaningful.

Understanding is a critical element increasingly overlooked in the effort to turn information into a commodity. Data may be any set of facts, useful or not, intelligible or inscrutable, germane or irrelevant. Computers can crank out new data all night long without human help, and the results may be offered for sale as information. They may or may not actually be so. Only a human being can recognize the meaning which separates information from data.

In fact, information, in the economic sense of the word, consists of data which have been passed through a particular human mind and found meaningful within that mental context. One fella's information is all just data to someone else. If you're an anthropologist, my detailed charts of Tasaday kinship patterns might be critical information to you. If you're a banker from Hong Kong, they might barely seem to be data.

Familiarity Has More Value Than Scarcity,

With physical goods, there is a direct correlation between scarcity and value. Gold is more valuable than wheat, even though you can't eat it. While this is not always the case, the situation with information is usually precisely the reverse. Most soft goods increase in value as they become more common. Familiarity is an important asset in the world of information. It may often be the case that the best thing you can do to raise the demand for your product is to give it away.

While this has not always worked with shareware, it could be argued that there is a connection between the extent to which commercial software is pirated and the amount

which gets sold. Broadly pirated software, such as Lotus 1-2-3 or WordPerfect, becomes a standard and benefits from Law of Increasing Returns based on familiarity.

In regard to my own soft product, rock and roll songs, there is no question that the band I write them for, the Grateful Dead, has increased its popularity enormously by giving them away. We have been letting people tape our concerts since the early seventies, but instead of reducing the demand for our product, we are now the largest concert draw in America, a fact which is at least in part attributable to the popularity generated by those tapes.

True, I don't get any royalties on the millions of copies of my songs which have been extracted from concerts, but I see no reason to complain. The fact is, no one but the Grateful Dead can perform a Grateful Dead song, so if you want the experience and not its thin projection, you have to buy a ticket from us. In other words, our intellectual property protection derives from our being the only real-time source of it.

Exclusivity Has Value

The problem with a model which turns the physical scarcity/value ratio on its head is that sometimes the value of information is very much based on its scarcity. Exclusive possession of certain facts makes them more useful. If everyone knows about conditions which might drive a stock price up, the information is valueless.

But again, the critical factor is usually time. It doesn't matter if this kind of information eventually becomes ubiquitous. What matters is being among the first who possess it and act on it. While potent secrets usually don't stay secret, they may remain so long enough to advance the cause of their original holders.

Point of View and Authority Have Value

In a world of floating realities and contradictory maps, rewards will accrue to those commentators whose maps seem to fit their territory snugly, based on their ability to yield predictable results for those who use them.

In aesthetic information, whether poetry or rock 'n' roll, people are willing to buy the new product of an artist, sight-unseen, based on their having been delivered a pleasurable experience by previous work.

Reality is an edit. People are willing to pay for the authority of those editors whose filtering point of view seems to fit best. And again, point of view is an asset which cannot be stolen or duplicated. No one but Esther Dyson sees the world as she does and the handsome fee she charges for her newsletter is actually for the privilege of looking at the world through her unique eyes.

Time Replaces Space

In the physical world, value depends heavily on possession, or proximity in space. One owns that material which falls inside certain dimensional boundaries and the ability to act directly, exclusively, and as one wishes upon what falls inside those boundaries is the principal right of ownership. And of course there is the relationship between value and scarcity, a limitation in space.

In the virtual world, proximity in time is a value determinant. An informational product is generally more valuable the closer the purchaser can place himself to the moment of its expression, a limitation in time. Many kinds of information degrade rapidly with either time or reproduction. Relevance fades as the territory they map changes. Noise is introduced and bandwidth lost with passage away from the point where the information is first produced.

Thus, listening to a Grateful Dead tape is hardly the same experience as attending a Grateful

Dead concert. The closer one can get to the headwaters of an informational stream, the better his chances of finding an accurate picture of reality in it. In an era of easy reproduction, the informational abstractions of popular experiences will propagate out from their source moments to reach anyone who's interested. But it's easy enough to restrict the real experience of the desirable event, whether knock-out punch or guitar lick, to those willing to pay for being there.

The Protection of Execution

In the hick town I come from, they don't give you much credit for just having ideas. You are judged by what you can make of them. As things continue to speed up, I think we see that execution is the best protection for those designs which become physical products. Or, as Steve Jobs once put it, "Real artists ship." The big winner is usually the one who gets to the market first (and with enough organizational force to keep the lead).

But, as we become fixated upon information commerce, many of us seem to think that originality alone is sufficient to convey value, deserving, with the right legal assurances, of a steady wage. In fact, the best way to protect intellectual property is to act on it. It's not enough to invent and patent, one has to innovate as well. Someone claims to have patented the microprocessor before Intel. Maybe so. If he'd actually started shipping microprocessors before Intel, his claim would seem far less spurious.

Information as Its Own Reward

It is now a commonplace to say that money is information. With the exception of Krugerands, crumpled cab-fare, and the contents of those suit-cases which drug lords are reputed to carry, most of the money in the informatized world is in ones and zeros. The global money

supply sloshes around the Net, as fluid as weather. It is also obvious, as I have discussed, that information has become as fundamental to the creation of modern wealth as land and sunlight once were.

What is less obvious is the extent to which information is acquiring intrinsic value, not as a means to acquisition but as the object to be acquired. I suppose this has always been less explicitly the case. In politics and academia, potency and information have always been closely related.

However, as we increasingly buy information with money, we begin to see that buying information with other information is simple economic exchange without the necessity of converting the product into and out of currency. This is somewhat challenging for those who like clean accounting, since, information theory aside, informational exchange rates are too squishy to quantify to the decimal point.

Nevertheless, most of what a middle class American purchases has little to do with survival. We buy beauty, prestige, experience, education, and all the obscure pleasures of owning. Many of these things can not only be expressed in non-material terms, they can be acquired by non-material means.

And then there are the inexplicable pleasures of information itself, the joys of learning, knowing, and teaching. The strange good feeling of information coming into and out of oneself. Playing with ideas is a recreation which people must be willing to pay a lot for, given the market for books and elective seminars. We'd likely spend even more money for such pleasures if there weren't so many opportunities to pay for ideas with other ideas.

This explains much of the collective "volunteer" work which fills the archives, newsgroups, and databases of the Internet. Its denizens are not working for 'nothing,' as is widely believed.

Rather they are getting paid in something besides money. It is an economy which consists almost entirely of information.

This may become the dominant form of human trade, and if we persist in modeling economics on a strictly monetary basis, we may be gravely misled.

Getting Paid in Cyberspace

How all the foregoing relates to solutions to the crisis in intellectual property is something I've barely started to wrap my mind around. It's fairly paradigm-warping to look at information through fresh eyes--to see how very little it is like pig iron or pork bellies, to imagine the tottering travesties of case law we will stack up if we go on treating it legally as though it were.

As I've said, I believe these towers of outmoded boilerplate will be a smoking heap sometime in the next decade and we mind miners will have no choice but to cast our lot with new systems that work.

I'm not really so gloomy about our prospects as readers of this jeremiad so far might conclude. Solutions will emerge. Nature abhors a vacuum and so does commerce.

Indeed, one of the aspects of the electronic frontier which I have always found most appealing--and the reason Mitch Kapor and I used that phrase in naming our foundation--is the degree to which it resembles the 19th Century American West in its natural preference for social devices which emerge from it conditions rather than those which are imposed from the outside.

Until the west was fully settled and "civilized" in this century, order was established according to an unwritten Code of the West which had the fluidity of etiquette rather than the rigidity of law. Ethics were more important than rules.

Understandings were preferred over laws, which were, in any event, largely unenforceable.

I believe that law, as we understand it, was developed to protect the interests which arose in the two economic "waves" which Alvin Toffler accurately identified in *The Third Wave*. The First Wave was agriculturally based and required law to order ownership of the principal source of production, land. In the Second Wave, manufacturing became the economic mainspring, and the structure of modern law grew around the centralized institutions which needed protection for their reserves of capital, manpower, and hardware.

Both of these economic systems required stability. Their laws were designed to resist change and to assure some equability of distribution within a fairly static social framework. The possibility spaces had to be constrained to preserve the predictability necessary to either land stewardship or capital formation.

In the Third Wave we have now entered, information to a large extent replaces land, capital, and hardware, and as I have detailed in the preceding section, information is most at home in a much more fluid and adaptable environment. The Third Wave is likely to bring a fundamental shift in the purposes and methods of law which will affect far more than simply those statutes which govern intellectual property.

The "terrain" itself--the architecture of the Net--may come to serve many of the purposes which could only be maintained in the past by legal imposition. For example, it may be unnecessary to constitutionally assure freedom of expression in an environment which, in the words of my fellow EFF co-founder John Gilmore, "treats censorship as a malfunction" and re-routes proscribed ideas around it.

Similar natural balancing mechanisms may arise to smooth over the social discontinuities which previously required legal intercession to set right. On the Net, these differences are more likely to be spanned by a continuous spectrum which connects as much as it separates.

And, despite their fierce grip on the old legal structure, companies which trade in information are likely to find that in their increasing inability to deal sensibly with technological issues, the courts will not produce results which are predictable enough to be supportive of long-term enterprise. Every litigation becomes like a game of Russian roulette, depending on the depth the presiding judge's clue-impairment.

Uncodified or adaptive "law," while as "fast, loose, and out of control" as other emergent forms, is probably more likely to yield something like justice at this point. In fact, one can already see in development new practices to suit the conditions of virtual commerce. The life forms of information are evolving methods to protect their continued reproduction.

For example, while all the tiny print on a commercial diskette envelope punctiliously requires much of those who would open it, there are, as I say, few who read those provisos, let alone follow them to the letter. And yet, the software business remains a very healthy sector of the American economy.

Why is this? Because people seem to eventually buy the software they really use. Once a program becomes central to your work, you want the latest version of it, the best support, the actual manuals, all privileges which are attached to ownership. Such practical considerations will, in the absence of working law, become more and more important in getting paid for what might easily be obtained for nothing.

I do think that some software is being purchased in the service of ethics or the abstract awareness that the failure to buy it will result in its not being produced any longer, but I'm going to leave those motivators aside. While I believe that the failure of law will almost certainly result in a compensating re-emergence of ethics as the ordering template of society, this is a belief I don't have room to support here.

Instead, I think that, as in the case cited above, compensation for soft products will be driven primarily by practical considerations, all of them consistent with the true properties of digital information, where the value lies in it, and how it can be both manipulated and protected by technology.

While the conundrum remains a conundrum, I can begin to see the directions from which solutions may emerge, based in part on broadening those practical solutions which are already in practice.

Relationship and Its Tools

I believe one idea is central to understanding liquid commerce: Information economics, in the absence of objects, will be based more on relationship than possession.

One existing model for the future conveyance of intellectual property is real time performance, a medium currently used only in theater, music, lectures, stand-up comedy and pedagogy. I believe the concept of performance will expand to include most of the information economy from multi-casted soap operas to stock analysis. In these instances, commercial exchange will be more like ticket sales to a continuous show than the purchase of discrete bundles of that which is being shown.

The other model, of course, is service. The entire professional class--doctors, lawyers, consultants, architects, etc.--are already being

paid directly for their intellectual property. Who needs copyright when you're on a retainer?

In fact, this model was applied to much of what is now copyrighted until the late 18th Century. Before the industrialization of creation, writers, composers, artists, and the like produced their products in the private service of patrons. Without objects to distribute in a mass market, creative people will return to a condition somewhat like this, except that they will serve many patrons, rather than one.

We can already see the emergence of companies which base their existence on supporting and enhancing the soft property they create rather than selling it by the shrink-wrapped piece or embedding it in widgets.

Trip Hawkins' new company for creating and licensing multimedia tools, 3DO, is an example of what I'm talking about. 3DO doesn't intend to produce any commercial software or consumer devices. Instead, they will act as a kind of private standards setting body, mediating among software and device creators who will be their licensees. They will provide a point of commonalty for relationships between a broad spectrum of entities.

In any case, whether you think of yourself as a service provider or a performer, the future protection of your intellectual property will depend on your ability to control your relationship to the market--a relationship which will most likely live and grow over a period of time.

The value of that relationship will reside in the quality of performance, the uniqueness of your point of view, the validity of your expertise, its relevance to your market, and, underlying everything, the ability of that market to access your creative services swiftly, conveniently, and interactively.

Interaction and Protection

Direct interaction will provide a lot of intellectual property protection in the future, and, indeed, it already has. No one knows how many software pirates have bought legitimate copies of a program after calling its publisher for technical support and being asked for some proof of purchase, but I would guess the number is very high.

The same kind of controls will be applicable to "question and answer" relationships between authorities (or artists) and those who seek their expertise. Newsletters, magazines, and books will be supplemented by the ability of their subscribers to ask direct questions of authors.

Interactivity will be a billable commodity even in the absence of authorship. As people move into the Net and increasingly get their information directly from its point of production, unfiltered by centralized media, they will attempt to develop the same interactive ability to probe reality which only experience has provided them in the past. Live access to these distant "eyes and ears" will be much easier to cordon than access to static bundles of stored but easily reproducible information.

In most cases, control will be based on restricting access to the freshest, highest bandwidth information. It will be a matter of defining the ticket, the venue, the performer, and the identity of the ticket holder, definitions which I believe will take their forms from technology, not law.

In most cases, the defining technology will be cryptography.

Crypto Bottling

Cryptography, as I've said perhaps too many times, is the "material" from which the walls, boundaries--and bottles--of Cyberspace will be fashioned.

Of course there are problems with cryptography or any other purely technical

method of property protection. It has always appeared to me that the more security you hide your goods behind, the more likely you are to turn your sanctuary into a target. Having come from a place where people leave their keys in their cars and don't even have keys to their houses, I remain convinced that the best obstacle to crime is a society with its ethics intact.

While I admit that this is not the kind of society most of us live in, I also believe that a social over-reliance on protection by barricades rather than conscience will eventually wither the latter by turning intrusion and theft into a sport, rather than a crime. This is already occurring in the digital domain as is evident in the activities of computer crackers.

Furthermore, I would argue that initial efforts to protect digital copyright by copy protection contributed to the current condition in which most otherwise ethical computer users seem morally untroubled by their possession of pirated software.

Instead of cultivating among the newly computerized a sense of respect for the work of their fellows, early reliance on copy protection led to the subliminal notion that cracking into a software package somehow "earned" one the right to use it. Limited not by conscience but by technical skill, many soon felt free to do whatever they could get away with. This will continue to be a potential liability of the encryption of digitized commerce.

Furthermore, it's cautionary to remember that copy protection was rejected by the market in most areas. Many of the upcoming efforts to use cryptography-based protection schemes will probably suffer the same fate. People are not going to tolerate much which makes computers harder to use than they already are without any benefit to the user.

Nevertheless, encryption has already demonstrated a certain blunt utility. New

subscriptions to various commercial satellite TV services sky-rocketed recently after their deployment of more robust encryption of their feeds. This, despite a booming backwoods trade in black decoder chips conducted by folks who'd look more at home running moonshine than cracking code.

Another obvious problem with encryption as a global solution is that once something has been unscrambled by a legitimate licensee, it may be openly available to massive reproduction.

In some instances, reproduction following decryption may not be a problem. Many soft products degrade sharply in value with time. It may be that the only real interest in some such products will be among those who have purchased the keys to immediacy.

Furthermore, as software becomes more modular and distribution moves online, it will begin to metamorphose in direct interaction with its user base. Discontinuous upgrades will smooth into a constant process of incremental improvement and adaptation, some of it man-made and some of it arising through genetic algorithms. Pirated copies of software may become too static to have much value to anyone.

Even in cases such as images, where the information is expected to remain fixed, the unencrypted file could still be interwoven with code which could continue to protect it by a wide variety of means.

In most of the schemes I can project, the file would be "alive" with permanently embedded software which could "sense" the surrounding conditions and interact with them. For example, it might contain code which could detect the process of duplication and cause it to self-destruct.

Other methods might give the file the ability to "phone home" through the Net to its original owner. The continued integrity of some files might require periodic "feeding" with digital cash

from their host, which they would then relay back to their authors.

Of course files which possess the independent ability to communicate upstream sound uncomfortably like the Morris Internet Worm. "Live" files do have a certain viral quality. And serious privacy issues would arise if everyone's computer were packed with digital spies.

The point is that cryptography will enable a lot of protection technologies which will develop rapidly in the obsessive competition which has always existed between lock-makers and lock-breakers.

But cryptography will not be used simply for making locks. It is also at the heart of both digital signatures and the afore-mentioned digital cash, both of which I believe will be central to the future protection of intellectual property.

I believe that the generally acknowledged failure of the shareware model in software had less to do with dishonesty than with the simple inconvenience of paying for shareware. If the payment process can be automated, as digital cash and signature will make possible, I believe that soft product creators will reap a much higher return from the bread they cast upon the waters of Cyberspace.

Moreover, they will be spared much of the overhead which presently adheres to the marketing, manufacture, sales, and distribution of information products, whether those products are computer programs, books, CD's, or motion pictures. This will reduce prices and further increase the likelihood of non-compulsory payment.

But of course there is a fundamental problem with a system which requires, through technology, payment for every access to a particular expression. It defeats the original Jeffersonian purpose of seeing that ideas were

available to everyone regardless of their economic station. I am not comfortable with a model which will restrict inquiry to the wealthy.

An Economy of Verbs

The future forms and protections of intellectual property are densely obscured from the entrance to the Virtual Age. Nevertheless, I can make (or reiterate) a few flat statements which I earnestly believe won't look too silly in fifty years.

- C In the absence of the old containers, almost everything we think we know about intellectual property is wrong. We are going to have to unlearn it. We are going to have to look at information as though we'd never seen the stuff before.
- C The protections which we will develop will rely far more on ethics and technology than on law.
- C Encryption will be the technical basis for most intellectual property protection. (And should, for this and other reasons, be made more widely available.)
- C The economy of the future will be based on relationship rather than possession. It will be continuous rather than sequential.

And finally, in the years to come, most human exchange will be virtual rather than physical, consisting not of stuff but the stuff of which dreams are made. Our future business will be conducted in a world made more of verbs than nouns.

Ojo Caliente, New Mexico, October 1, 1992
New York, New York, November 6, 1992
Brookline, Massachusetts, November 8, 1992
New York, New York, November 15, 1993
San Francisco, California, November 20, 1993
Pinedale, Wyoming, November 24-30, 1993
New York, New York, December 13-14, 1993

This expression has lived and grown to this point over the time period and in the places detailed above. Despite its print publication here, I expect it will continue to evolve in liquid form, possibly for years.

The thoughts in it have not been "mine" alone but have assembled themselves in a field of interaction which has existed between myself and numerous others, to whom I am grateful. They particularly include: Pamela Samuelson, Kevin Kelly, Mitch Kapor, Mike Godwin, Stewart Brand, Mike Holderness, Miram Barlow, Danny Hillis, Trip Hawkins, and Alvin Toffler. However, I should note in honesty that when Wired sends me a check for having temporarily "fixed" it on their pages, I alone will cash it...

**INTERNATIONAL NEWS SERVICE v. THE
ASSOCIATED PRESS**
SUPREME COURT OF THE UNITED
STATES

28 U.S. 215; 63 L. Ed. 211; 39 S. Ct. 68; 2
A.L.R. 293

Argued May 2, 3, 1918
December 23, 1918

OPINION BY: PITNEY

OPINION: [*229] [***69] [**216] MR.
JUSTICE PITNEY delivered the opinion of the
court.

The parties are competitors in the gathering and distribution of news and its publication for profit in newspapers throughout the United States. The Associated Press, which was complainant in the District Court, is a cooperative organization, incorporated under the Membership Corporations Law of the State of New York, its members being individuals who are either proprietors or representatives [**217] of about 950 daily newspapers published in all parts of the United States. That a corporation may be organized under that act for the purpose of gathering news for the use and benefit of its members and for publication in newspapers owned or represented by them, is recognized by an amendment enacted in 1901 (Laws N.Y. 1901, c. 436). Complainant gathers in all parts of the world, by means of various instrumentalities of its own, by exchange with its members, and by other appropriate means, news and intelligence of current and recent events of interest to newspaper readers and distributes it daily to its members for publication in their newspapers. The cost of the service, amounting approximately to \$ 3,500,000 per annum, is assessed upon the members and becomes a part of their costs of operation, to be recouped, presumably with profit, through [*230] the

publication of their several newspapers. Under complainant's by-laws each member agrees upon assuming membership that news received through complainant's service is received exclusively for publication in a particular newspaper, language, and place specified in the certificate of membership, that no other use of it shall be permitted, and that no member shall furnish or permit anyone in his employ or connected with his newspaper to furnish any of complainant's news in advance of publication to any person not a member. And each member is required to gather the local news of his district and supply it to the Associated Press and to no one else.

Defendant is a corporation organized under the laws of the State of New Jersey, whose business is the gathering and selling of news to its customers and clients, consisting of newspapers published throughout the United States, under contracts by which they pay certain amounts at stated times for defendant's service. It has wide-spread news-gathering agencies; the cost of its operations amounts, it is said, to more than \$ 2,000,000 per annum; and it serves about 400 newspapers located in the various cities of the United States and abroad, a few of which are represented, also, in the membership of the Associated Press.

The parties are in the keenest competition between themselves in the distribution of news throughout the United States; and so, as a rule, are the newspapers that they serve, in their several districts.

Complainant in its bill, defendant in its answer, have set forth in almost identical terms the rather obvious circumstances and conditions under which their business is conducted. The value of the service, and of the news furnished, depends upon the promptness of transmission, as well as upon the accuracy and impartiality of the news; it being essential that the news be transmitted to members or subscribers as early or earlier than similar information can be furnished to competing

newspapers [*231] by other news services, and that the news furnished by each agency shall not be furnished to newspapers which do not contribute to the expense of gathering it. And further, to quote from the answer: "Prompt knowledge and publication of world-wide news is essential to the conduct of a modern newspaper, and by reason of the enormous expense incident to the gathering and distribution of such news, the only practical way in which a proprietor of a newspaper can obtain the same is, either through cooperation with a considerable number of other newspaper proprietors in the work of collecting and distributing such news, and the equitable division with them of the expenses thereof, or by the purchase of such news from some existing agency engaged in that business."

The bill was filed to restrain the pirating of complainant's news by defendant in three ways: First, by bribing employees of newspapers published by complainant's members to furnish Associated Press news to defendant before publication, for transmission by telegraph and telephone to defendant's clients for publication by them; Second, by [***70] inducing Associated Press members to violate its by-laws and permit defendant to obtain news before publication; and Third, by copying news from bulletin boards and from early editions of complainant's newspapers and selling this, either bodily or after rewriting it, to defendant's customers.

The District Court, upon consideration of the bill and answer, with voluminous affidavits on both sides, granted a preliminary injunction under the first and second heads; but refused at that stage to restrain the systematic practice admittedly pursued by defendant, of taking news bodily from the bulletin boards and early editions of complainant's newspapers and selling it as its own. The court expressed itself as satisfied that this practice amounted to unfair trade, but as the legal question was [*232] one of first impression it considered

that the allowance of an injunction should await the outcome of an appeal. 240 Fed. Rep. 983, 996. Both parties having appealed, the Circuit Court of Appeals sustained the injunction [**218] order so far as it went, and upon complainant's appeal modified it and remanded the cause with directions to issue an injunction also against any bodily taking of the words or substance of complainant's news until its commercial value as news had passed away. 245 Fed. Rep. 244, 253. The present writ of certiorari was then allowed. 245 U.S. 644.

The only matter that has been argued before us is whether defendant may lawfully be restrained from appropriating news taken from bulletins issued by complainant or any of its members, or from newspapers published by them, for the purpose of selling it to defendant's clients. Complainant asserts that defendant's admitted course of conduct in this regard both violates complainant's property right in the news and constitutes unfair competition in business. And notwithstanding the case has proceeded only to the stage of a preliminary injunction, we have deemed it proper to consider the underlying questions, since they go to the very merits of the action and are presented upon facts that are not in dispute. As presented in argument, these questions are: 1. Whether there is any property in news; 2. Whether, if there be property in news collected for the purpose of being published, it survives the instant of its publication in the first newspaper to which it is communicated by the news-gatherer; and 3. Whether defendant's admitted course of conduct in appropriating for commercial use matter taken from bulletins or early editions of Associated Press publications constitutes unfair competition in trade.

The federal jurisdiction was invoked because of diversity of citizenship, not upon the ground that the suit arose under the copyright or other laws of the United [*233] States. Complainant's news matter is not copyrighted. It is said that it could not, in practice, be copyrighted, because of the large number of dispatches that are sent daily; and, according

to complainant's contention, news is not within the operation of the copyright act. Defendant, while apparently conceding this, nevertheless invokes the analogies of the law of literary property and copyright, insisting as its principal contention that, assuming complainant has a right of property in its news, it can be maintained (unless the copyright act be complied with) only by being kept secret and confidential, and that upon the publication with complainant's consent of uncopyrighted news by any of complainant's members in a newspaper or upon a bulletin board, the right of property is lost, and the subsequent use of the news by the public or by defendant for any purpose whatever becomes lawful.

A preliminary objection to the form in which the suit is brought may be disposed of at the outset. It is said that the Circuit Court of Appeals granted relief upon considerations applicable to particular members of the Associated Press, and that this was erroneous because the suit was brought by complainant as a corporate entity, and not by its members; the argument being that their interests cannot be protected in this proceeding any more than the individual rights of a stockholder can be enforced in an action brought by the corporation. From the averments of the bill, however, it is plain that the suit in substance was brought for the benefit of complainant's members, and that they would be proper parties, and, except for their numbers, perhaps necessary parties. Complainant is a proper party to conduct the suit as representing their interest; and since no specific objection, based upon the want of parties, appears to have been made below, we will treat the objection as waived. See Equity Rules 38, 43, 44.

[*234] In considering the general question of property in news matter, it is necessary to recognize its dual character, distinguishing between the substance of the information and the particular form or collocation of words in which the writer has communicated it.

No doubt news articles often possess a literary quality, and are the subject of literary property at the common law; nor do we question that such an article, as a literary production, is the subject of copyright by the terms of the act as it now stands. In an early case at the circuit Mr. Justice Thompson held in effect that a newspaper was not within the protection of the copyright acts of 1790 and 1802 (*Clayton v. Stone*, 2 Paine, 382; 5 Fed. Cas. No. 2872). But the present act is broader; it provides that the works for which copyright may be secured shall include "all the writings of an author," and specifically mentions [**71] "periodicals, including newspapers." Act of March 4, 1909, c. 320, @@ 4 and 5, 35 Stat. 1075, 1076. Evidently this admits to copyright a contribution to a newspaper, notwithstanding it also may convey news; and such is [**219] the practice of the copyright office, as the newspapers of the day bear witness. See Copyright Office Bulletin No. 15 (1917), pp. 7, 14, 16-17.

But the news element -- the information respecting current events contained in the literary production -- is not the creation of the writer, but is a report of matters that ordinarily are publici juris; it is the history of the day. It is not to be supposed that the framers of the Constitution, when they empowered Congress "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" (Const., Art I, @ 8, par. 8), intended to confer upon one who might happen to be the first to report a historic event the exclusive right for any period to spread the knowledge of it.

We need spend no time, however, upon the general [*235] question of property in news matter at common law, or the application of the copyright act, since it seems to us the case must turn upon the question of unfair competition in business. And, in our opinion, this does not depend upon any general right of property analogous to the common-law right of

the proprietor of an unpublished work to prevent its publication without his consent; nor is it foreclosed by showing that the benefits of the copyright act have been waived. We are dealing here not with restrictions upon publication but with the very facilities and processes of publication. The peculiar value of news is in the spreading of it while it is fresh; and it is evident that a valuable property interest in the news, as news, cannot be maintained by keeping it secret. Besides, except for matters improperly disclosed, or published in breach of trust or confidence, or in violation of law, none of which is involved in this branch of the case, the news of current events may be regarded as common property. What we are concerned with is the business of making it known to the, in which both parties to the present suit are engaged. That business consists in maintaining a prompt, sure, steady, and reliable service designed to place the daily events of the world at the breakfast table of the millions at a price that, while of trifling moment to each reader, is sufficient in the aggregate to afford compensation for the cost of gathering and distributing it, with the added profit so necessary as an incentive to effective action in the commercial world. The service thus performed for newspaper readers is not only innocent but extremely useful in itself, and indubitably constitutes a legitimate business. The parties are competitors in this field; and, on fundamental principles, applicable here as elsewhere, when the rights or privileges of the one are liable to conflict with those of the other, each party is under a duty so to conduct its own business as not unnecessarily or unfairly to injure [*236] that of the other. *Hitchman Coal & Coke Co. v. Mitchell*, 245 U.S. 229, 254.

Obviously, the question of what is unfair competition in business must be determined with particular reference to the character and circumstances of the business. The question here is not so much the rights of either party as against the public but their rights as between themselves. See *Morison v. Moat*, 9 Hare, 241,

258. And although we may and do assume that neither party has any remaining property interest as against the public in uncopyrighted news matter after the moment of its first publication, it by no means follows that there is no remaining property interest in it as between themselves. For, to both of them alike, news matter, however little susceptible of ownership or dominion in the absolute sense, is stock in trade, to be gathered at the cost of enterprise, organization, skill, labor, and money, and to be distributed and sold to those who will pay money for it, as for any other merchandise. Regarding the news, therefore, as but the material out of which both parties are seeking to make profits at the same time and in the same field, we hardly can fail to recognize that for this purpose, and as between them, it must be regarded as quasi property, irrespective of the rights of either as against the public.

In order to sustain the jurisdiction of equity over the controversy, we need not affirm any general and absolute property in the news as such. The rule that a court of equity concerns itself only in the protection of property rights treats any civil right of a pecuniary nature as a property right (*In re Sawyer*, 124 U.S. 200, 210; *In re Debs*, 158 U.S. 564, 593); and the right to acquire property by honest labor or the conduct of a lawful business is as much entitled to protection as the right to guard property already acquired. *Truax v. Raich*, 239 U.S. 33, 37-38; [*220] *Brennan v. United Hatters*, 73 N.J.L. 729, 742; [*237] *Barr v. Essex Trades Council*, 53 N.J. Eq. 101. It is this right that furnishes the basis of the jurisdiction in the ordinary case of unfair competition.

The question, whether one who has gathered general information or news at pains and expense for the purpose of subsequent publication through the press has such an interest [***72] in its publication as may be protected from interference, has been raised many times, although never, perhaps, in the precise form in which it is now presented.

Board of Trade v. Christie Grain & Stock Co., 198 U.S. 236, 250, related to the distribution of quotations of prices on dealings upon a board of trade, which were collected by plaintiff and communicated on confidential terms to numerous persons under a contract not to make them public. This court held that, apart from certain special objections that were overruled, plaintiff's collection of quotations was entitled to the protection of the law; that, like a trade secret, plaintiff might keep to itself the work done at its expense, and did not lose its right by communicating the result to persons, even if many, in confidential relations to itself, under a contract not to make it public; and that strangers should be restrained from getting at the knowledge by inducing a breach of trust.

In *National Tel. News Co. v. Western Union Tel. Co.*, 119 Fed. Rep. 294, the Circuit Court of Appeals for the Seventh Circuit dealt with news matter gathered and transmitted by a telegraph company, and consisting merely of a notation of current events having but a transient value due to quick transmission and distribution; and, while declaring that this was not copyrightable although printed on a tape by tickers in the offices of the recipients, and that it was a commercial not a literary product, nevertheless held that the business of gathering and communicating the news -- the service of purveying it -- was a legitimate business, meeting a distinctive commercial want and adding to the facilities of the business [*238] world, and partaking of the nature of property in a sense that entitled it to the protection of a court of equity against piracy.

Other cases are cited, but none that we deem it necessary to mention.

Not only do the acquisition and transmission of news require elaborate organization and a large expenditure of money, skill, and effort; not only has it an exchange value to the gatherer, dependent chiefly upon its novelty and freshness, the regularity of the service, its reputed reliability and thoroughness, and its

adaptability to the public needs; but also, as is evident, the news has an exchange value to one who can misappropriate it.

The peculiar features of the case arise from the fact that, while novelty and freshness form so important an element in the success of the business, the very processes of distribution and publication necessarily occupy a good deal of time. Complainant's service, as well as defendant's, is a daily service to daily newspapers; most of the foreign news reaches this country at the Atlantic seaboard, principally at the City of New York, and because of this, and of time differentials due to the earth's rotation, the distribution of news matter throughout the country is principally from east to west; and, since in speed the telegraph and telephone easily outstrip the rotation of the earth, it is a simple matter for defendant to take complainant's news from bulletins or early editions of complainant's members in the eastern cities and at the mere cost of telegraphic transmission cause it to be published in western papers issued at least as early as those served by complainant. Besides this, and irrespective of time differentials, irregularities in telegraphic transmission on different lines, and the normal consumption of time in printing and distributing the newspaper, result in permitting pirated news to be placed in the hands of defendant's readers sometimes simultaneously with the service [*239] of competing Associated Press papers, occasionally even earlier.

Defendant insists that when, with the sanction and approval of complainant, and as the result of the use of its news for the very purpose for which it is distributed, a portion of complainant's members communicate it to the general public by posting it upon bulletin boards so that all may read, or by issuing it to newspapers and distributing it indiscriminately, complainant no longer has the right to control the use to be made of it; that when it thus reaches the light of day it becomes the common possession of all to whom it is accessible; and that any purchaser of a

newspaper has the right to communicate the intelligence which it contains to anybody and for any purpose, even for the purpose of selling it for profit to newspapers published for [**221] profit in competition with complainant's members.

The fault in the reasoning lies in applying as a test the right of the complainant as against the public, instead of considering the rights of complainant and defendant, competitors in business, as between themselves. The right of the purchaser of a single newspaper to spread knowledge of its contents gratuitously, for any legitimate purpose not unreasonably interfering with complainant's right to make merchandise of it, may be admitted; but to transmit that news for commercial use, in competition with complainant -- which is what defendant has done and seeks to justify -- is a very different matter. In doing this defendant, by its very act, admits that it is taking material that has been acquired by complainant as the result of organization and the expenditure of labor, skill, and money, and which is salable by complainant for money, and that defendant in appropriating it and selling it as its own is endeavoring to reap where it has not sown, and by disposing of it to newspapers that are competitors of complainant's members is appropriating to itself the harvest [*240] of those who have sown. Stripped of all disguises, the process amounts to an unauthorized interference [***73] with the normal operation of complainant's legitimate business precisely at the point where the profit is to be reaped, in order to divert a material portion of the profit from those who have earned it to those who have not; with special advantage to defendant in the competition because of the fact that it is not burdened with any part of the expense of gathering the news. The transaction speaks for itself, and a court of equity ought not to hesitate long in characterizing it as unfair competition in business.

The underlying principle is much the same as that which lies at the base of the equitable theory of consideration in the law of trusts -- that he who has fairly paid the price should have the beneficial use of the property. Pom. Eq. Jur., @ 981. It is no answer to say that complainant spends its money for that which is too fugitive or evanescent to be the subject of property. That might, and for the purposes of the discussion we are assuming that it would, furnish an answer in a common-law controversy. But in a court of equity, where the question is one of unfair competition, if that which complainant has acquired fairly at substantial cost may be sold fairly at substantial profit, a competitor who is misappropriating it for the purpose of disposing of it to his own profit and to the disadvantage of complainant cannot be heard to say that it is too fugitive or evanescent to be regarded as property. It has all the attributes of property necessary for determining that a misappropriation of it by a competitor is unfair competition because contrary to good conscience.

The contention that the news is abandoned to the public for all purposes when published in the first newspaper is untenable. Abandonment is a question of intent, and the entire organization of the Associated Press negatives such a purpose. The cost of the service would be prohibitive if the reward were to be so limited. No single [*241] newspaper, no small group of newspapers, could sustain the expenditure. Indeed, it is one of the most obvious results of defendant's theory that, by permitting indiscriminate publication by anybody and everybody for purposes of profit in competition with the news-gatherer, it would render publication profitless, or so little profitable as in effect to cut off the service by rendering the cost prohibitive in comparison with the return. The practical needs and requirements of the business are reflected in complainant's by-laws which have been referred to. Their effect is that publication by each member must be deemed not by any

means an abandonment of the news to the world for any and all purposes, but a publication for limited purposes; for the benefit of the readers of the bulletin or the newspaper as such; not for the purpose of making merchandise of it as news, with the result of depriving complainant's other members of their reasonable opportunity to obtain just returns for their expenditures.

It is to be observed that the view we adopt does not result in giving to complainant the right to monopolize either the gathering or the distribution of the news, or, without complying with the copyright act, to prevent the reproduction of its news articles; but only postpones participation by complainant's competitor in the processes of distribution and reproduction of news that it has not gathered, and only to the extent necessary to prevent that competitor from reaping the fruits of complainant's efforts and expenditure, to the partial exclusion of complainant, and in violation of the principle that underlies the maxim *sic utere tuo*, etc.

It is said that the elements of unfair competition are lacking because there is no attempt by defendant to palm off its [**222] goods as those of the complainant, characteristic of the most familiar, if not the most typical, cases of unfair competition. *Howe Scale Co. v. Wyckoff, Seamans & Benedict*, 198 U.S. 118, 140. But we cannot concede that [*242] the right to equitable relief is confined to that class of cases. In the present case the fraud upon complainant's rights is more direct and obvious. Regarding news matter as the mere material from which these two competing parties are endeavoring to make money, and treating it, therefore, as quasi property for the purposes of their business because they are both selling it as such, defendant's conduct differs from the ordinary case of unfair competition in trade principally in this that, instead of selling its own goods as those of complainant, it substitutes

misappropriation in the place of misrepresentation, and sells complainant's goods as its own.

Besides the misappropriation, there are elements of imitation, of false pretense, in defendant's practices. The device of rewriting complainant's news articles, frequently resorted to, carries its own comment. The habitual failure to give credit to complainant for that which is taken is significant. Indeed, the entire system of appropriating complainant's news and transmitting it as a commercial product to defendant's clients and patrons amounts to a false representation to them and to their newspaper readers that the news transmitted is the result of defendant's own investigation in the field. But these elements, although accentuating the wrong, are not the essence of it. It is something more than the advantage of celebrity of which complainant is being deprived.

The doctrine of unclean hands is invoked as a bar to relief; it being insisted that defendant's practices against which complainant seeks an injunction are not different from the practice attributed to complainant, of utilizing defendant's news published by its subscribers. At this point it becomes [***74] necessary to consider a distinction that is drawn by complainant, and, as we understand it, was recognized by defendant also in the submission of proofs in the District Court, between two kinds of use that may be made by one news agency of news taken from the [*243] bulletins and newspapers of the other. The first is the bodily appropriation of a statement of fact or a news article, with or without rewriting, but without independent investigation or other expense. This form of pirating was found by both courts to have been pursued by defendant systematically with respect to complainant's news, and against it the Circuit Court of Appeals granted an injunction. This practice complainant denies having pursued, and the denial was sustained by the finding of the

District Court. It is not contended by defendant that the finding can be set aside, upon the proofs as they now stand. The other use is to take the news of a rival agency as a "tip" to be investigated, and if verified by independent investigation the news thus gathered is sold. This practice complainant admits that it has pursued and still is willing that defendant shall employ.

Both courts held that complainant could not be debarred on the ground of unclean hands upon the score of pirating defendant's news, because not shown to be guilty of sanctioning this practice.

As to securing "tips" from a competing news agency, the District Court (240 Fed. Rep. 991, 995), while not sanctioning the practice, found that both parties had adopted it in accordance with common business usage, in the belief that their conduct was technically lawful, and hence did not find in it any sufficient ground for attributing unclean hands to complainant. The Circuit Court of Appeals (245 Fed. Rep. 247) found that the tip habit, though discouraged by complainant, was "incurably journalistic," and that there was "no difficulty in discriminating between the utilization of 'tips' and the bodily appropriation of another's labor in accumulating and stating information."

We are inclined to think a distinction may be drawn between the utilization of tips and the bodily appropriation of news matter, either in its original form or after [*244] rewriting and without independent investigation and verification; whatever may appear at the final hearing, the proofs as they now stand recognize such a distinction; both parties avowedly recognize the practice of taking tips, and neither party alleges it to be unlawful or to amount to unfair competition in business. In a line of English cases a somewhat analogous practice has been held not to amount to an infringement of the copyright of a directory or other book containing compiled information. In *Kelly v. Morris*, L.R. 1 Eq. 697, 701, 702, Vice

Chancellor Sir William Page Wood (afterwards Lord Hatherly), dealing with such a case, said that defendant was "not entitled to take one word of the information [**223] previously published without independently working out the matter for himself, so as to arrive at the same result from the same common sources of information, and the only use that he can legitimately make of a previous publication is to verify his own calculations and results when obtained." This was followed by Vice Chancellor Giffard in *Morris v. Ashbee*, L.R. 7 Eq. 34, where he said: "In a case such as this no one has a right to take the results of the labour and expense incurred by another for the purposes of a rival publication, and thereby save himself the expense and labour of working out and arriving at these results by some independent road." A similar view was adopted by Lord Chancellor Hatherly and the former Vice Chancellor, then Giffard, L.J., in *Pike v. Nicholas*, L.R. 5 Ch. App. Cas. 251, and shortly afterwards by the latter judge in *Morris v. Wright*, L.R. 5 Ch. App. Cas. 279, 287, where he said, commenting upon *Pike v. Nicholas*: "It was a perfectly legitimate course for the defendant to refer to the plaintiff's book, and if, taking that book as his guide, he went to the original authorities and compiled his book from them, he made no unfair or improper use of the plaintiff's book; and so here, if the fact be that Mr. Wright used the plaintiff's [*245] book in order to guide himself to the persons on whom it would be worth his while to call, and for no other purpose, he made a perfectly legitimate use of the plaintiff's book."

A like distinction was recognized by the Circuit Court of Appeals for the Second Circuit in *Edward Thompson Co. v. American Law Book Co.*, 122 Fed. Rep. 922, and in *West Publishing Co. v. Edward Thompson Co.*, 176 Fed. Rep. 833, 838.

In the case before us, in the present state of the pleadings and proofs, we need go no further than to hold, as we do, that the admitted pursuit by complainant of the practice of taking news

items published by defendant's subscribers as tips to be investigated, and, if verified, the result of the investigation to be sold -- the practice having been followed by defendant also, and by news agencies generally -- is not shown to be such as to constitute an unconscientious or inequitable attitude towards its adversary so as to fix upon complainant the taint of unclean hands, and debar it on this ground from the relief to which it is otherwise entitled.

There is some criticism of the injunction that was directed by the District Court upon the going down of the mandate from the Circuit Court of Appeals. In brief, it restrains any taking or gainfully using of the complainant's [***75] news, either bodily or in substance, from bulletins issued by the complainant or any of its members, or from editions of their newspapers, "until its commercial value as news to the complainant and all of its members has passed away." The part complained of is the clause we have italicized; but if this be indefinite, it is no more so than the criticism. Perhaps it would be better that the terms of the injunction be made specific, and so framed as to confine the restraint to an extent consistent with the reasonable protection of complainant's newspapers, each in its own area and for a specified time after its [*246] publication, against the competitive use of pirated news by defendant's customers. But the case presents practical difficulties; and we have not the materials, either in the way of a definite suggestion of amendment, or in the way of proofs, upon which to frame a specific injunction; hence, while not expressing approval of the form adopted by the District Court, we decline to modify it at this preliminary stage of the case, and will leave that court to deal with the matter upon appropriate application made to it for the purpose.

The decree of the Circuit Court of Appeals will be

Affirmed.

MR. JUSTICE CLARKE took no part in the consideration or decision of this case.

CONCURBY: HOLMES

CONCUR: MR. JUSTICE HOLMES:

When an uncopyrighted combination of words is published there is no general right to forbid other people repeating them -- in other words there is no property in the combination or in the thoughts or facts that the words express. Property, a creation of law, does not arise from value, although exchangeable -- a matter of fact. Many exchangeable values may be destroyed intentionally without compensation. Property depends upon exclusion by law from interference, and a person is not excluded from using any combination of words merely because someone has used it before, even if it took labor and genius to make it. If a given person is to be prohibited from making the use of words that his neighbors are free to make some other ground must be found. One such ground is vaguely expressed in the phrase unfair trade. This means that the words are repeated by a competitor in business in such a way as [**224] to convey a misrepresentation that materially injures the person who first used them, by appropriating credit of some kind [*247] which the first user has earned. The ordinary case is a representation by device, appearance, or other indirection that the defendant's goods come from the plaintiff. But the only reason why it is actionable to make such a representation is that it tends to give the defendant an advantage in his competition with the plaintiff and that it is thought undesirable that an advantage should be gained in that way. Apart from that the defendant may use such unpatented devices and uncopyrighted combinations of words as he likes. The ordinary case, I say, is palming off the defendant's product as the plaintiff's, but the same evil may follow from the opposite falsehood -- from saying, whether in words or by implication, that the plaintiff's product is the

defendant's, and that, it seems to me, is what has happened here.

Fresh news is got only by enterprise and expense. To produce such news as it is produced by the defendant represents by implication that it has been acquired by the defendant's enterprise and at its expense. When it comes from one of the great news-collecting agencies like the Associated Press, the source generally is indicated, plainly importing that credit; and that such a representation is implied may be inferred with some confidence from the unwillingness of the defendant to give the credit and tell the truth. If the plaintiff produces the news at the same time that the defendant does, the defendant's presentation impliedly denies to the plaintiff the credit of collecting the facts and assumes that credit to the defendant. If the plaintiff is later in western cities it naturally will be supposed to have obtained its information from the defendant. The falsehood is a little more subtle, the injury a little more indirect, than in ordinary cases of unfair trade, but I think that the principle that condemns the one condemns the other. It is a question of how strong an infusion of fraud is necessary to turn a flavor into a poison. The does seems to me strong [*248] enough here to need a remedy from the law. But as, in my view, the only ground of complaint that can be recognized without legislation is the implied misstatement, it can be corrected by stating the truth; and a suitable acknowledgment of the source is all that the plaintiff can require. I think that within the limits recognized by the decision of the Court the defendant should be enjoined from publishing news obtained from the Associated Press for hours after publication by the plaintiff unless it gives express credit to the Associated Press; the number of hours and the form of acknowledgment to be settled by the District Court.

MR. JUSTICE McKENNA concurs in this opinion.

DISSENT: MR. JUSTICE BRANDEIS dissenting.

There are published in the United States about 2,500 daily papers. n1 More than 800 of them are supplied with domestic and foreign news of general interest by the Associated Press -- a corporation without capital stock [***76] which does not sell news or earn or seek to earn profits, but serves merely as an instrumentality by means of which these papers supply themselves at joint expense with such news. Papers not members of the Associated Press depend for their news of general interest largely upon agencies organized for profit. n2 Among these agencies [*249] is the International News Service which supplies news to about 400 subscribing papers. It has, like the Associated Press, bureaus and correspondents in this and foreign countries; and its annual expenditure in gathering and distributing news is about \$ 2,000,000. Ever since its organization in 1909, it has included among the sources from which it gathers news, copies (purchased in the open market) of early editions of some papers published by members of the Associated Press and the bulletins publicly posted by them. These items, which constitute but a small part of the news transmitted to its subscribers, are generally verified by the International News Service before transmission; but frequently items are transmitted without verification; and occasionally even without being re-written. In no case is the fact disclosed that [**225] such item was suggested by or taken from a paper or bulletin published by an Associated Press member.

-----Footnotes-----

n1 See American Newspaper Annual and Directory (1918), pp. 4, 10, 1193-1212.

n2 The Associated Press, by Frank B. Noyes, Sen. Doc. No. 27, 63d Cong., 1st sess. In a brief filed in this court by counsel for the Associated Press the number of its members

is stated to be 1030. Some members of the Associated Press are also subscribers to the International News Service.

Strictly the member is not the publishing concern, but an individual who is the sole or part owner of a newspaper, or an executive officer of a company which owns one. By-laws, Article II, @ 1.

-----End Footnotes-----

No question of statutory copyright is involved. The sole question for our consideration is this: Was the International News Service properly enjoined from using, or causing to be used gainfully, news of which it acquired knowledge by lawful means (namely, by reading publicly posted bulletins or papers purchased by it in the open market) merely because the news had been originally gathered by the Associated Press and continued to be of value to some of its members, or because it did not reveal the source from which it was acquired?

The "ticker" cases, the cases concerning literary and artistic compositions, and cases of unfair competition were relied upon in support of the injunction. But it is admitted that none of those cases affords a complete analogy with that before us. The question presented for decision is new; and it is important.

News is a report of recent occurrences. The business of the news agency is to gather systematically knowledge [*250] of such occurrences of interest and to distribute reports thereof. The Associated Press contended that knowledge so acquired is property, because it costs money and labor to produce and because it has value for which those who have it not are ready to pay; that it remains property and is entitled to protection as long as it has commercial value as news; and that to protect it effectively the defendant must be enjoined from making, or causing to be made, any gainful use of it while it retains such value. An essential element of individual property is the legal right to exclude others from enjoying it. If

the property is private, the right of exclusion may be absolute; if the property is affected with a public interest, the right of exclusion is qualified. But the fact that a product of the mind has cost its producer money and labor, and has a value for which others are willing to pay, is not sufficient to ensure to it this legal attribute of property. The general rule of law is, that the noblest of human productions -- knowledge, truths ascertained, conceptions, and ideas -- become, after voluntary communication to others, free as the air to common use. Upon these incorporeal productions the attribute of property is continued after such communication only in certain classes of cases where public policy has seemed to demand it. These exceptions are confined to productions which, in some degree, involve creation, invention, or discovery. But by no means all such are endowed with this attribute of property. The creations which are recognized as property by the common law are literary, dramatic, musical, and other artistic creations; and these have also protection under the copyright statutes. The inventions and discoveries upon which this attribute of property is conferred only by statute, are the few comprised within the patent law. There are also many other cases in which courts interfere to prevent curtailment of plaintiff's enjoyment of incorporeal productions; and in which the [*251] right to relief is often called a property right, but is such only in a special sense. In those cases, the plaintiff has no absolute right to the protection of his production; he has merely the qualified right to be protected as against the defendant's acts, because of the special relation in which the latter stands or the wrongful method or means employed in acquiring the knowledge or the manner in which it is used. Protection of this character is afforded where the suit is based upon breach of contract or of trust or upon unfair competition.

The knowledge for which protection is sought in the case at bar is not of a kind upon which the law has heretofore conferred the attributes of property; nor is the manner of its acquisition

or use nor the purpose to which it is applied, such as has heretofore been recognized as entitling a plaintiff to relief.

First: Plaintiff's principal reliance was upon the "ticker" cases; but they do not support [***77] its contention. The leading cases on this subject rest the grant of relief, not upon the existence of a general property right in news, but upon the breach of a contract or trust concerning the use of news communicated; and that element is lacking here. In *Board of Trade v. Christie Grain & Stock Co.*, 198 U.S. 236, 250, the court said the Board "does not lose its rights by communicating the result [the quotations] to persons, even if many, in confidential relations to itself, under a contract not to make it public, and strangers to the trust will be restrained from getting at the knowledge by inducing a breach of trust and using knowledge obtained by such a breach." And it is also stated there, (page 251): "Time is of the essence in matters like this, and it fairly may be said that, if the contracts with the plaintiff are kept, the information will not [**226] become public property until the plaintiff has gained its reward." The only other case in this court which relates to this subject is *Hunt v. N.Y. Cotton Exchange*, 205 U.S. [**252] 322. While the opinion there refers the protection to a general property right in the quotations, the facts are substantially the same as those in the *Christie Case*, which is the chief authority on which the decision is based. Of the cases in the lower federal courts and in the state courts it may be said, that most of them too can, on their facts, be reconciled with this principle, though much of the language of the courts cannot be. n1 In spite of anything that may appear in these cases to the contrary it seems that the true principle is stated in the *Christie Case*, that the collection of quotations "stands like a trade secret." And in *Dr. Miles Medical Co v. Park & Sons Co.*, 220 U.S. 373, 402, this court says of a trade secret: "Any one may use it who fairly, by analysis and experiment, discovers it. But the complainant is entitled to be protected against invasion of its right in the process by

fraud or by breach of trust or contract." See *John D. Park & Sons Co. v. Hartman*, 153 Fed. Rep. 24, 29.

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n1 *Board of Trade of City of Chicago v. Tucker*, 221 Fed. Rep. 305; *Board of Trade of City of Chicago v. Price*, 213 Fed. Rep. 336; *McDearmott Commission Co. v. Board of Trade of City of Chicago*, 146 Fed. Rep. 961; *Board of Trade of City of Chicago v. Cella Commission Co.*, 145 Fed. Rep. 28; *National Tel. News Co. v. Western Union Tel. Co.*, 119 Fed. Rep. 294; *Illinois Commission Co. v. Cleveland Tel. Co.*, 119 Fed. Rep. 301; *Board of Trade of Chicago v. Hadden-Krull Co.*, 109 Fed. Rep. 705; *Cleveland Tel. Co. v. Stone*, 105 Fed. Rep. 794.; *Board of Trade of City of Chicago v. Thomson Commission Co.*, 103 Fed. Rep. 902; *Kiernan v. Manhattan Quotation Telegraph Co.*, 50 How. Pr. 194. The bill in *F.W. Dodge Co. v. Construction Information Co.*, 183 Mass. 62, was expressly based on breach of contract or of trust. It has been suggested that a board of trade has a right of property in its quotations because the facts reported originated in its exchange. The point has been mentioned several times in the cases, but no great importance seems to have been attached to it.

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The leading English case, *Exchange Telegraph Co. v. Gregory & Co.*, [1896] 1 Q.B. 147, is also rested clearly upon a breach of contract or trust, although there is some [**253] reference to a general property right. The later English cases seem to have rightly understood the basis of the decision, and they have not sought to extend it further than was intended. Indeed, we find the positive suggestion in some cases that the only ground for relief is the manner in which knowledge of the report of the news was acquired. n1

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n1 In *Exchange Telegraph Co., Ltd., v. Howard*, 22 Times Law Rep. 375, 377, it is intimated that it would be perfectly permissible for the defendant to take the score from a newspaper supplied by the plaintiff and publish it. And it is suggested in *Exchange Telegraph Co., Ltd., v. Central News, Ltd.*, [1897] 2 Ch. 48, 54, that there are sources from which the defendant might be able to get the information collected by the plaintiff and publish it without committing any wrong. Copinger, *Law or Copyright*, 5th ed., p. 35, explains the Gregory Case on the basis of the breach of confidence involved. Richardson, *Law of Copyright*, p. 39, also inclines to put the case "on the footing of implied confidence."

If the news involved in the case at bar had been posted in violation of any agreement between the Associated Press and its members, questions similar to those in the "ticker" cases might have arisen. But the plaintiff does not contend that the posting was wrongful or that any papers were wrongfully issued by its subscribers. On the contrary it is conceded that both the bulletins and the papers were issued in accordance with the regulations of the plaintiff. Under such circumstances, for a reader of the papers purchased in the open market, or a leader of the bulletins publicly posted, to procure and use gainfully, information therein contained, does not involve inducing anyone to commit a breach either of contract or of trust, or committing or in any way abetting a breach of confidence.

Second: Plaintiff also relied upon the cases which hold that the common-law right of the producer to prohibit copying is not lost by the private circulation of a literary composition, the delivery of lecture, the exhibition [*254] of a painting, or the performance of a dramatic or musical composition. n1 These [***78] cases rest upon the ground that the common [**227] law recognizes such productions as property which, despite restricted communication, continues until there is a dedication to the

public under the copyright statutes or otherwise. But they are inapplicable for two reasons. (1) At common law, as under the copyright acts, intellectual productions are entitled to such protection only if there is underneath something evincing the mind of a creator or originator, however modest the requirement. The mere record of isolated happenings, whether in words or by photographs not involving artistic skill, are denied such protection. n2 (2) At common law, as under the copyright acts, the element in intellectual productions which secures such protection is not the knowledge, truths, ideas, or emotions which the composition expresses, but the form or sequence in which they are expressed; that is, "some new collocation of visible or audible points, -- of lines, colors, sounds, or [*255] words." See *White-Smith Music Co. v. Apollo Co.*, 209 U.S. 1, 19; *Kalem Co. v. Harper Brothers*, 222 U.S. 55, 63. An author's theories, suggestions, and speculations, or the systems, plans, methods, and arrangements of an originator, derive no such protection from the statutory copyright of the book in which they are set forth.; n1 and they are likewise denied such protection at common law. n2

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n1 *Ferris v. Frohman*, 223 U.S. 424; *American Tobacco Co. v. Werckmeister*, 207 U.S. 284, 299; *Universal Film Mfg. Co. v. Copperman*, 218 Fed. Rep. 577; *Werckmeister v. American Lithographic Co.*, 134 Fed. Rep. 321; *Drummond v. Altemus*, 60 Fed. Rep. 338; *Boucicault v. Hart*, 13 Blatchf. 47; Fed. Cas. No. 1692; *Crowe v. Aiken*, 2 Biss. 208; Fed. Cas. No. 3441; *Boucicault v. Fox*, 5 Blatchf. 87; Fed. Cas. No. 1691; *Bartlett v. Crittenden*, 5 McLean, 32; Fed. Cas. No. 1076; *Bartlette v. Crittenden*, 4 McLean, 300; Fed. Cas. No. 1082; *Tompkins v. Halleck*, 133 Mass. 32; *Aronson v. Baker*, 43 N.J. Eq. 365; *Caird v. Sime*, L.R. 12 App. Cas. 326; *Nicols v. Pitman*, L.R. 26 Ch. D. 374; *Abernethy v. Hutchinson*, 3 L.J. (O.S.) Ch. 209; *Turner v. Robinson*, 10 Ir. Eq. Rep. 121.

n2 Compare *Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239, 250; *Higgins v. Keuffel*, 140 U.S. 428, 432.; *Burrow-Giles Lithographic Co. v. Sarony*, 111 U.S. 53, 58-60.; *Baker v. Selden*, 101 U.S. 99, 105, 106; *Chayton v. Stone*, 2 Paine, 382; Fed. Cas. No. 2872; *National Tel. News Co. v. Western Union Tel. Co.*, 119 Fed. Rep. 294, 296-298; *Banks Law Pub. Co. v. Lawyers' Co-operative Pub. Co.*, 169 Fed. Rep. 386, 391.

n1 *Baker v. Selden*, 101 U.S. 99; *Perris v. Hexamer*, 99 U.S. 674; *Barnes v. Miner*, 122 Fed. Rep. 480, 491; *Burnell v. Chown*, 69 Fed. Rep. 993; *Tate v. Fullbrook*, [1908] 1 K.B. 821; *Chilton v. Progress Printing & Publishing Co.*, [1985] 2 Ch. 29, 34; *Kendrick & Co. v. Lawrence & Co.*, L.R. 25 Q.B.D. 99; *Pike v. Nicholas*, L.R. 5 Ch. App. 251.

n2 *Bristol v. Equitable Life Assurance Society* 132 N.Y. 264; *Haskins v. Ryan*, 71 N.J. Eq. 575.

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That news is not property in the strict sense is illustrated by the case of *Sports and General Press Agency, Ltd., v. "Our Dogs" Publishing Co., Ltd.*, [1916] 2 K.B. 880, where the plaintiff, the assignee of the right to photograph the exhibits at a dog show, was refused an injunction against defendant who had also taken pictures of the show and was publishing them. The court said that, except in so far as the possession of the land occupied by the show enabled the proprietors to exclude people or permit them on condition that they agree not to take photographs (which condition was not imposed in that case), the proprietors had no exclusive right to photograph the show and could therefore grant no such right. And, it was further stated that, at any rate, no matter what conditions might be imposed upon those entering the grounds, if the defendant had been on top of a house or in some position where he could photograph the show without interfering with the physical property of the plaintiff, the

plaintiff would have no right to stop him. If, when the plaintiff creates the event recorded, he is not entitled to the exclusive first publication of the [*256] news (in that case a photograph) of the event, no reason can be shown why he should be accorded such protection as to events which he simply records and transmits to other parts of the world, though with great expenditure of time and money.

Third: If news be treated as possessing the characteristics not of a trade secret, but of literary property, then the earliest issue of a paper of general circulation or the earliest public posting of [**228] a bulletin which embodies such news would, under the established rules governing literary property, operate as a publication, and all property in the news would then cease. Resisting this conclusion, plaintiff relied upon the cases which hold that uncopyrighted intellectual and artistic property survives private circulation or a restricted publication; and it contended that in each issue of each paper, a restriction is to be implied that the news shall not be used gainfully in competition with the Associated Press or any of its members. There is no basis for such an implication. But it is also well settled that where the publication is in fact a general one, even express words of restriction upon use are inoperative. In other words, a general publication is effective to dedicate literary property to the public, regardless of the actual intent of its owner. n1 In the cases dealing with lectures, dramatic and musical performances, and art exhibitions, n2 upon which plaintiff relied, there was no general publication in print comparable to the issue of daily newspapers or the unrestricted public posting of bulletins. The principles governing those cases differ more or less in application, if not in theory, from the principles governing the issue of printed copies; [*257] and in so far as they [***79] do differ, they have no application to the case at bar.

n1 *Jewelers' Mercantile Agency v. Jewelers' Publishing Co.*, 155 N.Y. 241; *Wagner v. Conried*, 125 Fed. Rep. 798, 801.,

Larrowe-Loisette v. O'Loughlin, 88 Fed. Rep. 896.

n2 See cases in note 1, p. 254, supra; Richardson, Law of Copyright, p. 128.

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Fourth: Plaintiff further contended that defendant's practice constitutes unfair competition, because there is "appropriation without cost to itself of values created by" the plaintiff; and it is upon this ground that the decision of this court appears to be based. To appropriate and use for profit, knowledge and ideas produced by other men, without making compensation or even acknowledgment, may be inconsistent with a finer sense of propriety; but, with the exceptions indicated above, the law has heretofore sanctioned the practice. Thus it was held that one may ordinarily make and sell anything in any form, may copy with exactness that which another has produced, or may otherwise use his ideas without his consent and without the payment of compensation, and yet not inflict a legal injury; n1 and that ordinarily one is at perfect liberty to find out, if he can by lawful means, trade secrets of another, however valuable, and then use the knowledge so acquired gainfully, although it cost the original owner much in effort and in money to collect or produce.n2

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n1 Flagg Manufacturing Co. v. Holway, 178 Massachusetts, 83; Bristol v. Equitable Life Assurance Society, 132 N.Y. 264; Keystone Type Foundry v. Portland Publishing Co., 186 Fed. Rep. 690.

n2 Chadwick v. Covell, 151 Massachusetts, 190; Tabor v. Hoffman, 118 N.Y. 30, 36; James v. James, L.R. 13 Eq. 421. Even when knowledge is compiled, as in a dictionary, and copyrighted, the suggestions and sources therein may be freely used by a later compiler. The copyright protection merely prevents his

taking the ultimate data while avoiding the labor and expense involved in compiling them. Pike v. Nicholas, L.R. 5 Ch. App. 251; Morris v. Wright, L.R. 5 Ch. App. 279; Edward Thompson Co. v. American Law Book Co., 122 Fed. Rep. 922; West Pub. Co. v. Edward Thompson Co., 176 Fed. Rep. 833. It is assumed that in the absence of copyright, the data compiled could be freely used. See Morris v. Ashbee, L.R. 7 Eq. 34, 40. Compare also Chilton v. Progress Printing & Publishing Co., [1895] Ch. 29.

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[*258] Such taking and gainful use of a product of another which, for reasons of public policy, the law has refused to endow with the attributes of property, does not become unlawful because the product happens to have been taken from a rival and is used in competition with him. The unfairness in competition which hitherto has been recognized by the law as a basis for relief, lay in the manner or means of conducting the business; and the manner or means held legally unfair, involves either fraud or force or the doing of acts otherwise prohibited by law. In the "passing off" cases (the typical and mostcommon case of unfair competition), the wrong consists in fraudulently representing by word or act that defendant's goods are those of plaintiff. See Hanover Milling Co. v. Metcalf, 240 U.S. 403, 412-413. In the other cases, the diversion of trade was effected through physical or moral coercion, or by inducing breaches of contract or of trust or by enticing away employees. In some others, called cases of simulated competition, relief was granted because defendant's purpose was [**229] unlawful; namely, not competition but deliberate and wanton destruction of plaintiff's business. n1

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n1 "Trust Laws & Unfair Competition" (U.S. Bureau of Corporations, March 15, 1915), pp.

301-331, 332-461; Nims, Unfair Competition & Trade-Marks, c. XIX; Sperry & Hutchinson Co. v. Pommer, 199 Fed. Rep. 309, 314; Racine Paper Goods Co. v. Dittgen, 171 Fed. Rep. 631; Schonwald v. Ragains, 32 Oklahoma, 223; Attorney General v. National Cash Register Co., 182 Michigan, 99; Witkop & Holmes Co. v. Great Atlantic & Pacific Tea Co., 124 N.Y. Supp. 956, 958; Dunshee v. Standard Oil Co., 152 Iowa, 618; Tuttle v. Buck, 107 Minnesota, 145.

The cases of Fonotipia, Limited, v. Badley, 171 Fed. Rep. 951, and Prest-O-Lite Co. v. Davis, 209 Fed. Rep. 917, which were strongly relied upon by the plaintiff, contain expressions indicating rights possibly broad enough to sustain the injunction in the case at bar; but both cases involve elements of "passing off." See also Prest-O-Lite Co. v. Davis, 215 Fed. Rep. 349; Searchlight Gas Co. v. Prest-O-Lite Co., 215 Fed. Rep. 692; Prest-O-Lite Co. v. H.W. Bogen, Inc., 209 Fed. Rep. 915; Prest-O-Lite Co. v. Avery Lighting Co., 161 Fed. Rep. 648. In Prest-O-Lite Co. v. Auto Acetylene Light Co., 191 Fed. Rep. 90, the bill was dismissed on the ground that no deception was shown.

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[*259] That competition is not unfair in a legal sense, merely because the profits gained are unearned, even if made at the expense of a rival, is shown by many cases besides those referred to above. He who follows the pioneer into a new market, or who engages in the manufacture of an article newly introduced by another, seeks profits due largely to the labor and expense of the first adventurer; but the law sanctions, indeed encourages, the pursuit.ⁿ¹ He who makes a city known through his product, must submit to sharing the resultant trade with others who, perhaps for that reason, locate there later. Canal Co. v. Clark, 13 Wall. 311; Elgin National Watch Co. v. Illinois Watch Co., 179 U.S. 665, 673. He who has made his name a guaranty of quality, protests in vain when another with the same name engages,

perhaps for that reason, in the same lines of business; provided, precaution is taken to prevent the public from being deceived into the belief that what he is selling was made by his competitor. One bearing a name made famous by another is permitted to enjoy the unearned benefit which necessarily flows from such use, even though the use proves harmful to him who gave the name value. Brown Chemical Co. v. Meyer, 139 U.S. 540, 544; Howe [***80] Scale Co. v. Wyckoff, Seamans & Benedict, 198 U.S. 118; Donnell v. Herring-Hall-Marvin Safe Co., 208 U.S. 267; Waterman Co. v. Modern Pen Co., 235 U.S. 88. See Saxlehner v. Wagner, 216 U.S. 375.

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n1 Magee Furnace Co. v. Le Barron, 127 Massachusetts, 115; Ricker v. Railway, 90 Maine, 395, 403.

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The means by which the International News Service obtains news gathered by the Associated Press is also clearly unobjectionable. It is taken from papers bought in the open market or from bulletins publicly posted. [*260] No breach of contract such as the court considered to exist in Hitchman Coal & Coke Co. v. Mitchell, 245 U.S. 229, 254; or of trust such as was present in Morison v. Moat, 9 Hare, 241; and neither fraud nor force, is involved. The manner of use is likewise unobjectionable. No reference is made by word or by act to the Associated Press, either in transmitting the news to subscribers or by them in publishing it in their papers. Neither the International News Service nor its subscribers is gaining or seeking to gain in its business a benefit from the reputation of the Associated Press. They are merely using its product without making compensation. See Bamforth v. Douglass Post Card & Machine Co., 158 Fed. Rep. 355; Tribune Co. of Chicago v. Associated Press, 116 Fed. Rep. 126. That,

they have a legal right to do; because the product is not property, and they do not stand in any relation to the Associated Press, either of contract or of trust, which otherwise precludes such use. The argument is not advanced by characterizing such taking and use a misappropriation.

It is also suggested, that the fact that defendant does not refer to the Associated Press as the source of the news may furnish a basis for the relief. But the defendant and its subscribers, unlike members of the Associated Press, were under no contractual obligation to disclose the source of the news; and there is no rule of law requiring acknowledgment to be [**230] made where uncopyrighted matter is reproduced. The International News Service is said to mislead its subscribers into believing that the news transmitted was originally gathered by it and that they in turn mislead their readers. There is, in fact, no representation by either of any kind. Sources of information are sometimes given because required by contract; sometimes because naming the source gives authority to an otherwise incredible statement; and sometimes the source is named because the agency does not wish to take the [*261] responsibility itself of giving currency to the news. But no representation can properly be implied from omission to mention the source of information except that the International News Service is transmitting news which it believes to be credible.

Nor is the use made by the International News Service of the information taken from papers or bulletins of Associated Press members legally objectionable by reason of the purpose for which it was employed. The acts here complained of were not done for the purpose of injuring the business of the Associated Press. Their purpose was not even to divert its trade, or to put it at a disadvantage by lessening defendant's necessary expenses. The purpose was merely to supply subscribers of the International News Service promptly with

all available news. The suit is, as this court declares, in substance one brought for the benefit of the members of the Associated Press, who would be proper, and except for their number perhaps necessary, parties; and the plaintiff conducts the suit as representing their interest. It thus appears that the protection given by the injunction is not actually to the business of the complainant news agency; for this agency does not sell news nor seek to earn profits, but is a mere instrumentality by which 800 or more newspapers collect and distribute news.

It is these papers severally which are protected; and the protection afforded is not from competition of the defendant, but from possible competition of one or more of the 400 other papers which receive the defendant's service. Furthermore, the protection to these Associated Press members consists merely in denying to other papers the right to use, as news, information which, by authority of all concerned, had theretofore been given to the public by some of those who joined in gathering it; and to which the law denies the attributes of property. There is in defendant's purpose nothing on which to base a claim for relief.

[*262] It is further said that, while that for which the Associated Press spends its money is too fugitive to be recognized as property in the common-law courts, the defendant cannot be heard to say so in a court of equity, where the question is one of unfair competition. The case presents no elements of equitable title or of breach of trust. The only possible reason for resort to a court of equity in a case like this is that the remedy which the law gives is inadequate. If the plaintiff has no legal cause of action, the suit necessarily fails. *Levy v. Walker*, L.R. 10 Ch. D. 436, 449. There is nothing in the situation of the parties which can estop the defendant from saying so.

Fifth: The great development of agencies now furnishing country-wide distribution of news, the vastness of our territory, and improvements in the means of transmitting intelligence, have

made it possible for a news agency or newspapers to obtain, without paying compensation, the fruit of another's efforts and to use news so obtained [***81] gainfully in competition with the original collector. The injustice of such action is obvious. But to give relief against it would involve more than the application of existing rules of law to new facts. It would require the making of a new rule in analogy to existing ones. The unwritten law possesses capacity for growth; and has often satisfied new demands for justice by invoking analogies or by expanding a rule or principle. This process has been in the main wisely applied and should not be discontinued. Where the problem is relatively simple, as it is apt to be when private interests only are involved, it generally proves adequate. But with the increasing complexity of society, the public interest tends to become omnipresent; and the problems presented by new demands for justice cease to be simple. Then the creation or recognition by courts of a new private right may work serious injury to the general public, unless the [*263] boundaries of the right are definitely established and wisely guarded. In order to reconcile the new private right with the public interest, it may be necessary to prescribe limitations and rules for its enjoyment; and also to provide administrative machinery for enforcing the rules. It is largely for this reason that, in the effort to meet the [**231] many new demands for justice incident to a rapidly changing civilization, resort to legislation has latterly been had with increasing frequency.

The rule for which the plaintiff contends would effect an important extension of property rights and a corresponding curtailment of the free use of knowledge and of ideas; and the facts of this case admonish us of the danger involved in recognizing such a property right in news, without imposing upon news-gatherers corresponding obligations. A large majority of the newspapers and perhaps half the newspaper readers of the United States are

dependent for their news of general interest upon agencies other than the Associated Press. The channel through which about 400 of these papers received, as the plaintiff alleges, "a large amount of news relating to the European war of the greatest importance and of intense interest to the newspaper reading public" was suddenly closed. The closing to the International News Service of these channels for foreign news (if they were closed) was due not to unwillingness on its part to pay the cost of collecting the news, but to the prohibitions imposed by foreign governments upon its securing news from their respective countries and from using cable or telegraph lines running therefrom. For aught that appears, this prohibition may have been wholly undeserved; and at all events the 400 papers and their readers may be assumed to have been innocent. For aught that appears, the International News Service may have sought then to secure temporarily by arrangement with the Associated Press the latter's foreign news service. For aught that [*264] appears, all of the 400 subscribers of the International News Service would gladly have then become members of the Associated Press, if they could have secured election thereto. n1 It is possible, also, that a large part of the readers of these papers were so situated that they could not secure prompt access to papers served by the Associated Press. The prohibition of the foreign governments might as well have been extended to the channels through which news was supplied to the more than a thousand other daily papers in the United States not served by the Associated Press; and a large part of their readers may also be so located that they can not procure prompt access to papers served by the Associated Press.

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n1 According to the by-laws of the Associated Press no one can be elected a member without the affirmative vote of at least four-fifths of all the members of the corporation or the vote of

the directors. Furthermore, the power of the directors to admit anyone to membership may be limited by a right of protest to be conferred upon individual members. See By-laws, Article III, @ 6. "The members of this Corporation may, by an affirmative vote of seven-eighths of all the members, confer upon a member (with such limitations as may be at the time prescribed) a right of protest against the admission of new members by the Board of Directors. The right of protest, within the limits specified at the time it is conferred, shall empower the member holding it to demand a vote of the members of the Corporation on all applications for the admission of new members within the district for which it is conferred except as provided in Section 2 of this Article."

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A legislature, urged to enact a law by which one news agency or newspaper may prevent appropriation of the fruits of its labors by another, would consider such facts and possibilities and others which appropriate enquiry might disclose. Legislators might conclude that it was impossible to put an end to the obvious injustice involved in such appropriation of news, without opening the door to other evils, greater than that sought to be remedied. Such appears to have been the opinion of our Senate which reported unfavorably a bill to give news a few [*265] hours' protection; n1 and which ratified, on February [***82] 15, 1911, the convention adopted at the Fourth International American Conference; n2 [**232] and such was evidently the view also of the signatories to the International Copyright Union Of November 13, 1908; n3 as both these conventions expressly exclude news from copyright protection.

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n1 Senate Bill No. 1728, 48th Cong., 1st sess. The bill provides:

"That any daily or weekly newspaper, or any association of daily or weekly newspapers,

published in the United States or any of the Territories thereof, shall have the sole right to print, issue, and sell, for the term of eight hours, dating from the hour of going to press, the contents of said daily or weekly newspaper, or the collected news of said newspaper association, exceeding one hundred words.

"Sec. 2. That for any infringement of the copyright granted by the first section of this act the party injured may sue in any court of competent jurisdiction and recover in any proper action the damages sustained by him from the person making such infringement, together with the costs of suit."

It was reported on April 18, 1884, by the Committee on the Library, without amendment, and that it ought not to pass. Journal of the Senate, 48th Cong., 1st sess., p. 548. No further action was apparently taken on the bill.

When the copyright legislation of 1909, finally enacted as Act of March 4, 1909, c. 320, 35 Stat. 1075, was under consideration, there was apparently no attempt to include news among the subjects of copyright. Arguments before the Committees on Patents of the Senate and House of Representatives on Senate Bill No. 6330 and H. R. Bill No. 19853, 59th Cong., 1st sess., June 6, 7, 8, and 9, and December 7, 8, 10, and 11, 1906; Hearings on Pending Bills to Amend and Consolidate Acts Respecting Copyright, March 26, 27 and 28, 1908.

n2 38 Stat. 1785, 1789, Article 11.

n3 Bowker, Copyright: Its History and its Law, pp. 330, 612, 613. See the similar provisions in the Berne Convention (1886) and the Paris Convention (1896). Id., pp. 612, 613.

In 1898 Lord Herschell introduced in Parliament a bill, @ 11 of which provides: "Copyright in respect of a newspaper shall apply only to such parts of the newspaper as are compositions of an original literary character, to original illustrations therein, and to such news and information as have been specially and independently obtained." (Italics

ours.) House of Lords, Sessional Papers, 1898, vol. 3, Bill No. 21. Birrell, Copyright in Books, p. 210. But the bill was not enacted, and in the English law as it now stands there is no provision giving even a limited copyright in news as such. Act of December 16, 1911, 1 and 2 Geo. V. c. 46.

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[*266] Or legislators dealing with the subject might conclude, that the right to news values should be protected to the extent of permitting recovery of damages for any unauthorized use, but that protection by injunction should be denied, just as courts of equity ordinarily refuse (perhaps in the interest of free speech) to restrain actionable libels, n1 and for other reasons decline to protect by injunction mere political rights; n2 and as Congress has prohibited courts from enjoining the illegal assessment or collection of federal taxes. n3 If a legislature concluded to recognize property in published news to the extent of permitting recovery at law, it might, with a view to making the remedy more certain and adequate, provide a fixed measure of damages, as in the case of copyright infringement.n4

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n1 Boston Diatite Co. v. Florence Mfg. Co., 114 Massachusetts, 69; Prudential Assurance Co. v. Knott, L.R. 10 Ch. App. 142.

n2 Giles v. Harris, 189 U.S. 475. Compare Swafford v. Templeton, 185 U.S. 487; Green v. Mills, 69 Fed. Rep. 852, 859.

n3 Revised Statutes, @ 3224; Snyder v. Marks, 109 U.S. 189; Dodge v. Osborn, 240 U.S. 118.

n4 Act of March 4, 1909, @ 25, c. 320, 35 Stat. 1075, 1081, provides as to the liability for the infringement of a copyright, that, "in the case of a newspaper reproduction of a

copyrighted photograph such damages shall not exceed the sum of two hundred dollars nor be less than the sum of fifty dollars"; and that in the case of infringement of a copyrighted newspaper the damages recoverable shall be one dollar for every infringing copy, but shall not be less than \$ 250 nor more than \$ 5,000.

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Or again, a legislature might conclude that it was unwise to recognize even so limited a property right in published news as that above indicated; but that a news agency should, on some conditions, be given full protection [*267] of its business; and to that end a remedy by injunction as well as one for damages should be granted, where news collected by it is gainfully used without permission. If a legislature concluded, (as at least one court has held, New York & Chicago Grain & Stock Exchange v. Board of Trade, 127 Illinois, 153) that under certain circumstances news-gathering is a business affected with a public interest, it might declare that, in such cases, news should be protected against appropriation, only if the gatherer assumed the obligation of supplying it, at reasonable rates and without discrimination, to all papers which applied therefor. If legislators reached that conclusion, they would probably go further, and prescribe the conditions under which and the extent to which the protection should be afforded; and they might also provide the administrative machinery necessary for ensuring to the public, the press, and the news agencies, full enjoyment of the rights so conferred.

Courts are ill-equipped to make the investigations which should precede a determination of the limitations which should be set upon any property right in news or of the circumstances under which news gathered by a private agency should be deemed affected with a public interest. Courts would be powerless to prescribe the detailed regulations

essential to full enjoyment of the rights conferred or to introduce the machinery required for enforcement of such regulations. Considerations such as these [**233] should lead us to decline to establish a new rule of law in the effort to redress a newly-disclosed wrong, although the propriety of some remedy appears to be clear.

Demsetz, The Private Production of Public Goods



III

Supplementary Cases on Intellectual Property

Intellectual Property & the Constitution
Congressional Power – Case Study #1 Term Extension

“I have no difficulty to maintain that a perpetual monopoly of books would prove more destructive to learning, and even to authors, than a second irruption of Goths and Vandals. And hence with assurance I infer, that a perpetual monopoly is not a branch of the common law or of the law of nature. God planted that law in our hearts for the good of society; and it is too wisely contrived to be in any case productive of mischief.

Our booksellers, it is true, aiming at present profit, may not think themselves much concerned about futurity. But it belongs to judges to look forward; and it deserves to be duly pondered whether the interest of literature in general ought to be sacrificed to the pecuniary interest of a few individuals.... [A] monopoly would put a final end to the commerce of books in a few generations. And therefore, I am for dismissing this process as contrary to law, as ruinous to the public interest, and as prohibited by the statute.”

[Lord Kames, holding that the Statute of Anne wiped out common-law perpetual copyright.]

1.Introduction

As the Supreme Court says in *Lopez*, we begin with first principles. Although it is difficult to remember at times, the federal government is a government of *limited and enumerated* powers.

Congress's power to legislate for the country must be founded on one of the powers enumerated in art. I, section 8 of the Constitution. Congress's power to offer limited monopolies to authors and inventors (i.e. copyright and patent) derives from the so-called Intellectual Property clause, art. I, sec. 8, cl. 8 of the Constitution:

Congress shall have power . . . [t]o Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors exclusive Right to their respective Writings and Discoveries.

At the outset, there are a few notable things about this grant of power. First, it is the only clause that comes with its own, built-in justification: "to promote the progress of science and useful arts." None of the other -- clauses list a rationale. For example, Congress also has the power:

To borrow money on the credit of the United States; To regulate commerce with foreign nations, and among the several states, and with the Indian tribes; To establish a uniform rule of naturalization, and uniform laws on the subject of bankruptcies throughout the United States; To coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures; To provide for the punishment of counterfeiting the securities and current coin of the United States; To establish post offices and post roads; etc.

Like some other clauses, the intellectual property clause contains modifiers: "by securing for *limited Times*." Note that the rules on naturalization and bankruptcy must be "uniform". So the modifier, "limited" is not the only time the Founding Fathers saw fit to give Congress a little hint about *how* to use their limited powers.

The Supreme Court has interpreted the Copyright (and patent) clause over the years in ways that show that it is supposed to have some "bite" – that it exercises some real limitations on Congress's power. The Trademark Cases, which follow this introduction, represent the earliest and most significant example of this limitation. (The excerpted fragment of the John Deere case provides a more recent assertion of the limits of Congressional power in the context of patent law.) But important questions remain. Is the Trademark Cases' limited view of the intellectual property power largely an artefact of the pre New Deal cases restricting Federal power? To what extent did it survive the New Deal's changes in constitutional law? If there are any strong limitations imposed by the intellectual property clause, do they also limit the power of the Congress under the *other* clauses of the constitution? For example, if under the intellectual property clause, Congress is forbidden from creating permanent copyrights or rights over unoriginal collections of fact, may it do so under the Commerce clause instead?

These questions are given particular saliency by two developments; first, the increased importance of intellectual property rights in an information age that runs from the Internet to the Human Genome project and second, the increased willingness of the Supreme Court to assert constitutional limitations of Congressional power. Recently, the Supreme Court has become more active in requiring Congress to stay

within the bounds of its enumerated powers, *see e.g.* Lopez (striking down the Gun-Free School Zone law as outside of the scope of Congress's power under the commerce clause); U.S. v. Morrison, 529 U.S. 598 (2000) (striking down the Violence Against Women Act on the same rationale). At the same time, Congress has been expanding intellectual property protections in various ways.

Are these two currents on a collision course? That depends on whether the Constitution (either the Article I grant of power or the First Amendment or by some other provision in the Constitution or the Bill of Rights) places any affirmative limits on Congress's ability to legislate about intellectual property. This is question that is taken up in the following cases.

The Trademark Cases

100 U.S. 82

10 Otto 82, 25 L.Ed. 550

(Cite as: 100 U.S. 82)

TRADE-MARK CASES.**UNITED STATES****v.****STEFFENS;****UNITED STATES****v.****WITTEMANN;****UNITED STATES****v.****JOHNSON.**

Supreme Court of the United States

October Term, 1879

THE first two cases were brought here on certificates of division in opinion between the judges of the Circuit Court of the United States for the Southern District of New York. The last was brought here on a certificate of division on opinion between the judges of the Circuit Court of the United States for the Southern District of Ohio.

Steffens was indicted under the fourth and fifth sections of an act of Congress entitled 'An Act to punish the counterfeiting of trade-marks and the sale or dealing in of counterfeit trade-mark goods,' approved Aug. 14, 1876, 19 Stat. 141.

The first count in the indictment charges him with knowingly and wilfully having in his possession counterfeits and colorable imitations of the trade-marks of G. H. Mumm & Co., of Rheims, France, manufacturers and sellers of champagne wine.

The second count charges him with knowingly and wilfully selling counterfeited representations and colorable imitations of the trade-mark of said G. H. Mumm & Co.*83

MR. JUSTICE MILLER delivered the opinion of the court.

The three cases whose titles stand at the head of this opinion are criminal prosecutions for violations of what is known as the trade-mark legislation of Congress. The first two are indictments in the southern district of New York, and the last is an information in the southern district of Ohio. In all of them the judges of the circuit courts in which they are pending have certified to a difference of opinion on what is substantially the same question; namely, are the acts of Congress on the subject *92 of trade-marks founded on any rightful authority in the Constitution of the United States?

The entire legislation of Congress in regard to trade-marks is of very recent origin. It is first seen in sects. 77 to 84, inclusive, of the act of July 8, 1870, entitled 'An Act to revise, consolidate, and amend the statutes relating to patents and copyrights.' 16 Stat. 198. The part of this act relating to trade-marks is embodied in chap. 2, tit. 60, sects. 4937 to 4947, of the Revised Statutes.

It is sufficient at present to say that they provide for the registration in the Patent Office of any device in the nature of a trade-

mark to which any person has by usage established an exclusive right, or which the person so registering intends to appropriate by that act to his exclusive use; and they make the wrongful use of a trade-mark, so registered, by any other person, without the owner's permission, a cause of action in a civil suit for damages. Six years later we have the act of Aug. 14, 1876 (19 Stat. 141), punishing by fine and imprisonment the fraudulent use, sale, and counterfeiting of trade-marks registered in pursuance of the statutes of the United States, on which the informations and indictments are founded in the cases before us.

The right to adopt and use a symbol or a device to distinguish the goods or property made or sold by the person whose mark it is, to the exclusion of use by all other persons, has been long recognized by the common law and the chancery courts of England and of this country, and by the statutes of some of the States. It is a property right for the violation of which damages may be recovered in an action at law, and the continued violation of it will be enjoined by a court of equity, with compensation for past infringement. This exclusive right was not created by the act of Congress, and does not now depend upon it for its enforcement. The whole system of trade-mark property and the civil remedies for its protection existed long anterior to that act, and have remained in full force since its passage.

There propositions are so well understood as to require neither the citation of authorities nor an elaborate argument to prove them.*93

As the property in trade-marks and the right to their exclusive use rest on the laws of the States, and, like the great body of the rights

of person and of property, depend on them for security and protection, the power of Congress to legislate on the subject, to establish the conditions on which these rights shall be enjoyed and exercised, the period of their duration, and the legal remedies for their enforcement, if such power exist at all, must be found in the Constitution of the United States, which is the source of all powers that Congress can lawfully exercise.

In the argument of these cases this seems to be conceded, and the advocates for the validity of the acts of Congress on this subject point to two clauses of the Constitution, in one or in both of which, as they assert, sufficient warrant may be found for this legislation.

The first of these is the eighth clause of sect. 8 of the first article. That section, manifestly intended to be an enumeration of the powers expressly granted to Congress, and closing with the declaration of a rule for the ascertainment of such powers as are necessary by way of implication to carry into efficient operation those expressly given, authorizes Congress, by the clause referred to, '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.'

As the first and only attempt by Congress to regulate the right of trade-marks is to be found in the act of July 8, 1870, to which we have referred, entitled 'An Act to revise, consolidate, and amend the statutes relating to patents and copyrights,' terms which have long since become technical, as referring, the one to inventions and the other to the writings of authors, it is a reasonable inference that this part of the statute also was, in the opinion of Congress, an exercise

of the power found in that clause of the Constitution. It may also be safely assumed that until a critical examination of the subject in the courts became necessary, it was mainly if not wholly to this clause that the advocates of the law looked for its support.

Any attempt, however, to identify the essential characteristics of a trade-mark with inventions and discoveries in the *94 arts and sciences, or with the writings of authors, will show that the effort is surrounded with insurmountable difficulties.

The ordinary trade-mark has no necessary relation to invention or discovery. The trade-mark recognized by the common law is generally the growth of a considerable period of use, rather than a sudden invention. It is often the result of accident rather than design, and when under the act of Congress it is sought to establish it by registration, neither originality, invention, discovery, science, nor art is in any way essential to the right conferred by that act. If we should endeavor to classify it under the head of writings of authors, the objections are equally strong. In this, as in regard to inventions, originality is required. And while the word writings may be liberally construed, as it has been, to include original designs for engravings, prints, &c., it is only such as are original, and are founded in the creative powers of the mind. The writings which are to be protected are the fruits of intellectual labor, embodied in the form of books, prints, engravings, and the like. The trade-mark may be, and generally is, the adoption of something already in existence as the distinctive symbol of the party using it. At common law the exclusive right to it grows out of its use, and not its mere adoption. By the act of Congress this exclusive right attaches upon registration. But in neither case does it depend upon novelty, invention,

discovery, or any work of the brain. It requires no fancy or imagination, no genius, no laborious thought. It is simply founded on priority of appropriation. We look in vain in the statute for any other qualification or condition. If the symbol, however plain, simple, old, or well-known, has been first appropriated by the claimant as his distinctive trade-mark, he may by registration secure the right to its exclusive use. While such legislation may be a judicious aid to the common law on the subject of trade-marks, and may be within the competency of legislatures whose general powers embrace that class of subjects, we are unable to see any such power in the constitutional provision concerning authors and inventors, and their writings and discoveries.

The other clause of the Constitution supposed to confer the requisite authority on Congress is the third of the same section, *95 which, read in connection with the granting clause, is as follows: 'The Congress shall have power to regulate commerce with foreign nations, and among the several States, and with the Indian tribes.'

The argument is that the use of a trade-mark--that which alone gives it any value--is to identify a particular class or quality of goods as the manufacture, produce, or property of the person who puts them in the general market for sale; that the sale of the article so distinguished is commerce; that the trade-mark is, therefore, a useful and valuable aid or instrument of commerce, and its regulation by virtue of the clause belongs to Congress, and that the act in question is a lawful exercise of this power.

Every species of property which is the subject of commerce, or which is used or

even essential in commerce, is not brought by this clause within the control of Congress. The barrels and casks, the bottles and boxes in which alone certain articles of commerce are kept for safety and by which their contents are transferred from the seller to the buyer, do not thereby become subjects of congressional legislation more than other property. *Nathan v. Louisiana*, 8 How. 73. In *Paul v. Virginia* (8 Wall. 168), this court held that a policy of insurance made by a corporation of one State on property situated in another, was not an article of commerce, and did not come within the purview of the clause we are considering. 'They are not,' says the court, 'commodities to be shipped or forwarded from one State to another, and then put up for sale.' On the other hand, in *Almy v. State of California* (24 How. 169), it was held that a stamp duty imposed by the legislature of California on bills of lading for gold and silver transported from any place in that State to another out of the State, was forbidden by the Constitution of the United States, because such instruments being a necessity to the transaction of commerce, the duty was a tax upon exports.

The question, therefore, whether the trademark bears such a relation to commerce in general terms as to bring it within congressional control, when used or applied to the classes of commerce which fall within that control, is one which, in the present case, we propose to leave undecided. We adopt this *96 course because when this court is called on in the course of the administration of the law to consider whether an act of Congress, or of any other department of the government, is within the constitutional authority of that department, a due respect for a co-ordinate branch of the government requires that we shall decide

that it has transcended its powers only when that is so plain that we cannot avoid the duty.

In such cases it is manifestly the dictate of wisdom and judicial propriety to decide no more than is necessary to the case in hand. That such has been the uniform course of this court in regard to statutes passed by Congress will readily appear to any one who will consider the vast amount of argument presented to us assailing them as unconstitutional, and he will count, as he may do on his fingers, the instances in which this court has declared an act of Congress void for want of constitutional power.

Governed by this view of our duty, we proceed to remark that a glance at the commerce clause of the Constitution discloses at once what has been often the subject of comment in this court and out of it, that the power of regulation there conferred on Congress is limited to commerce with foreign nations, commerce among the States, and commerce with the Indian tribes. While bearing in mind the liberal construction, that commerce with foreign nations means commerce between citizens of the United States and citizens and subjects of foreign nations, and commerce among the States means commerce between the individual citizens of different States, there still remains a very large amount of commerce, perhaps the largest, which, being trade or traffic between citizens of the same State, is beyond the control of Congress.

When, therefore, Congress undertakes to enact a law, which can only be valid as a regulation of commerce, it is reasonable to expect to find on the face of the law, or from its essential nature, that it is a regulation of commerce with foreign nations, or among

the several States, or with the Indian tribes. If not so limited, it is in excess of the power of Congress. If its main purpose be to establish a regulation applicable to all trade, to commerce at all points, especially if it be apparent that it is designed to govern the commerce wholly between citizens of *97 the same State, it is obviously the exercise of a power not confided to Congress.

We find no recognition of this principle in the chapter on trade-marks in the Revised Statutes. We would naturally look for this in the description of the class of persons who are entitled to register a trade-mark, or in reference to the goods to which it should be applied. If, for instance, the statute described persons engaged in a commerce between the different States, and related to the use of trade-marks in such commerce, it would be evident that Congress believed it was acting under the clause of the Constitution which authorizes it to regulate commerce among the States. So if, when the trade-mark has been registered, Congress had protected its use on goods sold by a citizen of one State to another, or by a citizen of a foreign State to a citizen of the United States, it would be seen that Congress was at least intending to exercise the power of regulation conferred by that clause of the Constitution. But no such idea is found or suggested in this statute.

It has been suggested that if Congress has power to regulate trade-marks used in commerce with foreign nations and among the several States, these statutes shall be held valid in that class of cases, if no further. To this there are two objections: First, the indictments in these cases do not show that the trade-marks which are wrongfully used were trade-marks used in that kind of commerce. Secondly, while it may be true

that when one part of a statute is valid and constitutional, and another part is unconstitutional and void, the court may enforce the valid part where they are distinctly separable so that each can stand alone, it is not within the judicial province to give to the words used by Congress a narrower meaning than they are manifestly intended to bear in order that crimes may be punished which are not described in language that brings them within the constitutional power of that body. **

**FEIST
PUBLICATIONS,
INC. v. RURAL
TELEPHONE
SERVICE CO., INC.**

No. 89-1909

**SUPREME
COURT OF THE
UNITED STATES**

**499 U.S. 340;
January 9, 1991,
Argued
March 27, 1991,
Decided**

JUDGES:

O'Connor, J., delivered the opinion of the Court, in which Rehnquist, C. J., and White, Marshall, Stevens, Scalia, Kennedy, and Souter, JJ., joined. Blackmun, J., concurred in the judgment.

OPINION BY:

O'CONNOR

This case requires us to clarify the extent of copyright protection available to telephone directory white pages.

I

Rural Telephone Service Company, Inc., is a certified public utility that provides telephone service to several communities in northwest Kansas. It is subject to a state regulation that requires all telephone companies operating in Kansas to issue annually an updated telephone directory. Accordingly, as a condition of its

monopoly franchise, Rural publishes a typical telephone directory, consisting of white pages and yellow pages. The white pages list in alphabetical order the names of Rural's subscribers, together with their towns and telephone numbers. The yellow pages list Rural's business subscribers alphabetically by category and feature classified advertisements of various sizes. Rural distributes its directory free of charge to its subscribers, but earns revenue by selling yellow pages advertisements.

Feist Publications, Inc., is a publishing company that specializes in area-wide telephone directories. Unlike a typical [*343] directory, which covers only a particular calling area, Feist's area-wide directories cover a much larger geographical range, reducing the need to call directory assistance or consult multiple directories. The Feist directory that is the subject of this litigation covers 11 different telephone service areas in 15 counties and contains 46,878 white pages listings -- compared to Rural's approximately 7,700 listings. Like Rural's directory, Feist's is distributed free of charge and includes both white pages and yellow pages. Feist and Rural compete vigorously for yellow pages advertising.

As the sole provider of telephone service in its service area, Rural obtains subscriber information quite easily. Persons desiring telephone service must apply to Rural and provide their names and addresses; Rural then assigns them a telephone number. Feist is not a telephone company, let alone one with monopoly status, and therefore lacks independent access to any subscriber information. To obtain white pages listings for its area-wide directory, Feist approached each of the 11 telephone companies operating in northwest Kansas and offered to pay for the right to use its white pages listings.

Of the 11 telephone companies, only Rural refused to license its listings to Feist. Rural's refusal created a problem for Feist, as omitting these listings would have left a gaping hole in its area-wide directory, rendering it less attractive to potential yellow pages advertisers. In a decision subsequent to that which we review here, the District Court determined that this was precisely the reason Rural refused to license its listings. The refusal was motivated by an unlawful purpose "to [***368] extend its monopoly in telephone service to a monopoly in yellow pages advertising." *Rural Telephone Service Co. v. Feist Publications, Inc.*, 737 F. Supp. 610, 622 (Kan. 1990).

Unable to license Rural's white pages listings, Feist used them without Rural's consent. Feist began by removing several thousand listings that fell outside the geographic range of its area-wide directory, then hired personnel to investigate the 4,935 that remained. These employees verified [*344] the data reported by Rural and sought to obtain additional information. As a result, a typical Feist listing includes the individual's street address; most of Rural's listings do not. Notwithstanding these additions, however, [**1287] 1,309 of the 46,878 listings in Feist's 1983 directory were identical to listings in Rural's 1982-1983 white pages. App. 54 (P 15-16), 57. Four of these were fictitious listings that Rural had inserted into its directory to detect copying.

Rural sued for copyright infringement in the District Court for the District of Kansas taking the position that Feist, in compiling its own directory, could not use the information contained in Rural's white pages. Rural asserted that Feist's employees were obliged to travel door-to-door or conduct a telephone survey to discover the same information for themselves. Feist responded that such efforts were economically impractical and, in any event, unnecessary because the information copied was beyond the scope of copyright

protection. The District Court granted summary judgment to Rural, explaining that "courts have consistently held that telephone directories are copyrightable" and citing a string of lower court decisions. 663 F. Supp. 214, 218 (1987). In an unpublished opinion, the Court of Appeals for the Tenth Circuit affirmed "for substantially the reasons given by the district court." App. to Pet. for Cert. 4a, judgt. order reported at 916 F. 2d 718 (1990). We granted certiorari, 498 U.S. 808 (1990), to determine whether the copyright in Rural's directory protects the names, towns, and telephone numbers copied by Feist.

* * *

This case concerns the interaction of two well-established propositions. The first is that facts are not copyrightable; the other, that compilations of facts generally are. Each of these propositions possesses an impeccable pedigree. That there can be no valid copyright in facts is universally understood. The most fundamental axiom of copyright law is that [*345] "no author may copyright his ideas or the facts he narrates." *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 556 (1985). Rural wisely concedes this point, noting in its brief that "facts and discoveries, of course, are not themselves subject to copyright protection." Brief for Respondent 24. At the same time, however, it is beyond dispute that compilations of facts are within the subject matter of copyright. Compilations were expressly mentioned in the Copyright Act of 1909, and again in the Copyright Act of 1976.

There is an undeniable tension between these two propositions. Many compilations consist of nothing but raw data -- *i. e.*, wholly factual [***369] information not accompanied by any original written expression. On what basis may one claim a copyright in such a work? Common sense tells us that 100 uncopyrightable facts do not magically change their status when gathered

together in one place. Yet copyright law seems to contemplate that compilations that consist exclusively of facts are potentially within its scope.

The key to resolving the tension lies in understanding why facts are not copyrightable. The *sine qua non* of copyright is originality. To qualify for copyright protection, a work must be original to the author. See *Harper & Row, supra*, at 547-549. Original, as the term is used in copyright, means only that the work was independently created by the author (as opposed to copied from other works), and that it possesses at least some minimal degree of creativity. 1 M. Nimmer & D. Nimmer, Copyright § § 2.01[A], [B] (1990) (hereinafter Nimmer). To be sure, the requisite level of creativity is extremely low; even a slight amount will suffice. The vast majority of works make the grade quite easily, as they possess some creative spark, "no matter how crude, humble or obvious" it might be. *Id.*, § 1.08[C][1]. Originality does not signify novelty; a work may be original even though it closely resembles other works so long as the similarity is fortuitous, not the result of copying. To illustrate, [*346] assume that two poets, each ignorant of the other, compose [*1288] identical poems. Neither work is novel, yet both are original and, hence, copyrightable. See *Sheldon v. Metro-Goldwyn Pictures Corp.*, 81 F. 2d 49, 54 (CA2 1936).

Originality is a constitutional requirement. The source of Congress' power to enact copyright laws is Article I, § 8, cl. 8, of the Constitution, which authorizes Congress to "secure for limited Times to Authors ... the exclusive Right to their respective Writings." In two decisions from the late 19th century -- *The Trade-Mark Cases*, 100 U.S. 82 (1879); and *Burrow-Giles Lithographic Co. v. Sarony*, 111 U.S. 53 (1884) -- this Court defined the crucial terms "authors" and "writings." In so doing, the Court made it unmistakably clear

that these terms presuppose a degree of originality.

In *The Trade-Mark Cases*, the Court addressed the constitutional scope of "writings." For a particular work to be classified "under the head of writings of authors," the Court determined, "originality is required." 100 U.S., at 94. The Court explained that originality requires independent creation plus a modicum of creativity: "While the word *writings* may be liberally construed, as it has been, to include original designs for engraving, prints, &c., it is only such as are *original*, and are founded in the creative powers of the mind. The writings which are to be protected are *the fruits of intellectual labor*, embodied in the form of books, prints, engravings, and the like." *Ibid.* (emphasis in original).

In *Burrow-Giles*, the Court distilled the same requirement from the Constitution's use of the word "authors." The Court defined "author," in a constitutional sense, to mean "he to whom anything owes its origin; originator; maker." 111 U.S., at 58 (internal quotation marks omitted). As in [***370] *The Trade-Mark Cases*, the Court emphasized the creative component of originality. It described copyright as being limited to "original intellectual conceptions of the author," 111 U.S., at 58, and stressed the importance of requiring an author who accuses another of infringement to prove "the existence [*347] of those facts of originality, of intellectual production, of thought, and conception." *Id.*, at 59-60.

The originality requirement articulated in *The Trade-Mark Cases* and *Burrow-Giles* remains the touchstone of copyright protection today. See *Goldstein v. California*, 412 U.S. 546, 561-562 (1973). It is the very "premise of copyright law." *Miller v. Universal City Studios, Inc.*, 650 F. 2d 1365, 1368 (CA5 1981). Leading scholars agree on this point. As one pair of commentators succinctly puts it: "The originality requirement is

constitutionally mandated for all works." Patterson & Joyce, *Monopolizing the Law: The Scope of Copyright Protection for Law Reports and Statutory Compilations*, 36 UCLA L. Rev. 719, 763, n. 155 (1989) (emphasis in original) (hereinafter Patterson & Joyce). Accord, *id.*, at 759-760, and n. 140; Nimmer § 1.06[A] ("Originality is a statutory as well as a constitutional requirement"); *id.*, § 1.08[C][1] ("[A] modicum of intellectual labor ... clearly constitutes an essential constitutional element").

It is this bedrock principle of copyright that mandates the law's seemingly disparate treatment of facts and factual compilations. "No one may claim originality as to facts." *Id.*, § 2.11[A], p. 2-157. This is because facts do not owe their origin to an act of authorship. The distinction is one between creation and discovery: The first person to find and report a particular fact has not created the fact; he or she has merely discovered its existence. To borrow from *Burrow-Giles*, one who discovers a fact is not its "maker" or "originator." 111 U.S., at 58. "The discoverer merely finds and records." Nimmer § 2.03[E]. Census takers, for example, do not "create" the population figures that emerge from their efforts; in a sense, they copy these figures [**1289] from the world around them. Denicola, *Copyright in Collections of Facts: A Theory for the Protection of Nonfiction Literary Works*, 81 Colum. L. Rev. 516, 525 (1981) (hereinafter Denicola). Census data therefore do not trigger copyright because these data are not "original" in the constitutional sense. Nimmer [*348] § 2.03[E]. The same is true of all facts -- scientific, historical, biographical, and news of the day. "They may not be copyrighted and are part of the public domain available to every person." *Miller, supra*, at 1369.

Factual compilations, on the other hand, may possess the requisite originality. The compilation

author typically chooses which facts to include, in what order to place them, and how to arrange the collected data so that they may be used effectively by readers. These choices as to selection and arrangement, so long as they are made independently by the compiler and entail a minimal degree of creativity, are sufficiently original that Congress may protect such compilations through the copyright laws. Nimmer § § 2.11[D], 3.03; Denicola 523, n. 38. Thus, even a directory that contains absolutely no protectible written expression, only facts, meets the constitutional minimum [***371] for copyright protection if it features an original selection or arrangement. See *Harper & Row*, 471 U.S., at 547. Accord, Nimmer § 3.03.

This protection is subject to an important limitation. The mere fact that a work is copyrighted does not mean that every element of the work may be protected. Originality remains the *sine qua non* of copyright; accordingly, copyright protection may extend only to those components of a work that are original to the author. Patterson & Joyce 800-802; Ginsburg, *Creation and Commercial Value: Copyright Protection of Works of Information*, 90 Colum. L. Rev. 1865, 1868, and n. 12 (1990) (hereinafter Ginsburg). Thus, if the compilation author clothes facts with an original collocation of words, he or she may be able to claim a copyright in this written expression. Others may copy the underlying facts from the publication, but not the precise words used to present them. In *Harper & Row*, for example, we explained that President Ford could not prevent others from copying bare historical facts from his autobiography, see 471 U.S., at 556-557, but that he could prevent others from copying his "subjective descriptions and portraits of public figures." [*349] *Id.*, at 563. Where the compilation author adds no written expression but rather lets the facts speak for themselves, the expressive element is more elusive. The only conceivable expression is the

manner in which the compiler has selected and arranged the facts. Thus, if the selection and arrangement are original, these elements of the work are eligible for copyright protection. See Patry, Copyright in Compilations of Facts (or Why the "White Pages" Are Not Copyrightable), 12 Com. & Law 37, 64 (Dec. 1990) (hereinafter Patry). No matter how original the format, however, the facts themselves do not become original through association. See *Patterson & Joyce* 776.

This inevitably means that the copyright in a factual compilation is thin. Notwithstanding a valid copyright, a subsequent compiler remains free to use the facts contained in another's publication to aid in preparing a competing work, so long as the competing work does not feature the same selection and arrangement. As one commentator explains it: "No matter how much original authorship the work displays, the facts and ideas it exposes are free for the taking. ... The very same facts and ideas may be divorced from the context imposed by the author, and restated or reshuffled by second comers, even if the author was the first to discover the facts or to propose the ideas." *Ginsburg* 1868.

It may seem unfair that much of the fruit of the compiler's labor may be used by others without compensation. As Justice Brennan [**1290] has correctly observed, however, this is not "some unforeseen byproduct of a statutory scheme." *Harper & Row*, 471 U.S., at 589 (dissenting opinion). It is, rather, "the essence of copyright," *ibid.*, and a constitutional requirement. The primary objective of copyright is not to reward the labor of authors, but "to promote the Progress of Science and useful Arts." Art. I, § 8, cl. 8. Accord, *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 [***372] (1975). To this end, copyright assures authors the right to their original [*350] expression, but encourages others

to build freely upon the ideas and information conveyed by a work. *Harper & Row, supra*, at 556-557. This principle, known as the idea/expression or fact/expression dichotomy, applies to all works of authorship. As applied to a factual compilation, assuming the absence of original written expression, only the compiler's selection and arrangement may be protected; the raw facts may be copied at will. This result is neither unfair nor unfortunate. It is the means by which copyright advances the progress of science and art.

This Court has long recognized that the fact/expression dichotomy limits severely the scope of protection in fact-based works. More than a century ago, the Court observed: "The very object of publishing a book on science or the useful arts is to communicate to the world the useful knowledge which it contains. But this object would be frustrated if the knowledge could not be used without incurring the guilt of piracy of the book." *Baker v. Selden*, 101 U.S. 99, 103 (1880). We reiterated this point in *Harper & Row*:

"No author may copyright facts or ideas. The copyright is limited to those aspects of the work -- termed 'expression' -- that display the stamp of the author's originality.

"Copyright does not prevent subsequent users from copying from a prior author's work those constituent elements that are not original -- for example ... facts, or materials in the public domain -- as long as such use does not unfairly appropriate the author's original contributions." 471 U.S., at 547-548 (citation omitted).

This, then, resolves the doctrinal tension: Copyright treats facts and factual compilations in a wholly consistent manner. Facts, whether alone or as part of a compilation, are not original and therefore may not be copyrighted. A factual compilation is

eligible for copyright if it features an original selection or arrangement of facts, but the copyright is limited to [*351] the particular selection or arrangement. In no event may copyright extend to the facts themselves.

B

As we have explained, originality is a constitutionally mandated prerequisite for copyright protection. The Court's decisions announcing this rule predate the Copyright Act of 1909, but ambiguous language in the 1909 Act caused some lower courts temporarily to lose sight of this requirement.

The 1909 Act embodied the originality requirement, but not as clearly as it might have. See Nimmer § 2.01. The subject matter of copyright was set out in §§ 3 and 4 of the Act. Section 4 stated that copyright was available to "all the writings of an author." 35 Stat. 1076. By using the words "writings" and "author" -- the same words used in Article I, § 8, of the Constitution and defined by the Court in *The Trade-Mark Cases* and *Burrow-Giles* -- the statute necessarily incorporated the originality requirement articulated in the Court's decisions. It [***373] did so implicitly, however, thereby leaving room for error.

Section 3 was similarly ambiguous. It stated that the copyright in a work protected only "the copyrightable component parts of the work." It thus stated an important copyright principle, but failed to identify the specific [**1291] characteristic -- originality -- that determined which component parts of a work were copyrightable and which were not.

Most courts construed the 1909 Act correctly, notwithstanding the less-than-perfect statutory language. They understood from this Court's decisions that there could be no copyright without originality. See *Patterson & Joyce* 760-761. As explained in the Nimmer treatise: "The 1909 Act neither defined originality, nor even expressly

required that a work be 'original' in order to command protection. However, the courts uniformly inferred the requirement from the fact that copyright protection may only be claimed by 'authors'.... It was reasoned that since an author is 'the ... [*352] creator, originator' it follows that a work is not the product of an author unless the work is original." Nimmer § 2.01 (footnotes omitted) (citing cases).

But some courts misunderstood the statute. See, e. g., *Leon v. Pacific Telephone & Telegraph Co.*, 91 F. 2d 484 (CA9 1937); *Jeweler's Circular Publishing Co. v. Keystone Publishing Co.*, 281 F. 83 (CA2 1922). These courts ignored §§ 3 and 4, focusing their attention instead on § 5 of the Act. Section 5, however, was purely technical in nature: It provided that a person seeking to register a work should indicate on the application the type of work, and it listed 14 categories under which the work might fall. One of these categories was "books, including composite and cyclopaedic works, directories, gazetteers, and other compilations." § 5(a). Section 5 did not purport to say that all compilations were automatically copyrightable. Indeed, it expressly disclaimed any such function, pointing out that "the subject-matter of copyright is defined in section four." Nevertheless, the fact that factual compilations were mentioned specifically in § 5 led some courts to infer erroneously that directories and the like were copyrightable *per se*, "without any further or precise showing of original -- personal -- authorship." Ginsburg 1895.

Making matters worse, these courts developed a new theory to justify the protection of factual compilations. Known alternatively as "sweat of the brow" or "industrious collection," the underlying notion was that copyright was a reward for the hard work that went into compiling facts. The classic formulation of the doctrine appeared in *Jeweler's Circular Publishing Co.*, 281 F., at 88:

"The right to copyright a book upon which one has expended labor in its preparation does not depend upon whether the materials which he has collected consist or not of matters which are *publici juris*, or whether such materials show literary skill *or originality*, either in thought or in language, or anything more than industrious [*353] collection. The man who goes through the streets of a town and puts down the names of each of the inhabitants, with their occupations and their street number, acquires material of which he is the author" (emphasis added).

The "sweat of the brow" doctrine had numerous flaws, the most glaring being that it extended copyright protection in a compilation beyond selection and arrangement -- the compiler's original contributions -- to the facts themselves. Under the doctrine, the only defense to infringement was independent creation. A subsequent compiler was "not entitled to take one word of information previously published," but rather had to "independently work out the matter for himself, so as to arrive at the same result from the same common sources of information." *Id.*, at 88-89 (internal quotations omitted). "Sweat of the brow" courts thereby eschewed the most fundamental axiom of copyright law -- that no one may copyright facts or ideas. See *Miller v. Universal City Studios, Inc.*, 650 F. 2d, at 1372 (criticizing "sweat of the brow" courts because "ensuring that later writers obtain the facts independently ... is precisely the scope of protection given ... copyrighted matter, and the law is clear [**1292] that facts are not entitled to such protection").

Decisions of this Court applying the 1909 Act make clear that the statute did not permit the "sweat of the brow" approach. The best example is *International News Service v. Associated Press*, 248 U.S. 215 (1918). In that decision, the Court stated unambiguously that the 1909 Act

conferred copyright protection only on those elements of a work that were original to the author. *International News Service* had conceded taking news reported by Associated Press and publishing it in its own newspapers. Recognizing that § 5 of the Act specifically mentioned "periodicals, including newspapers," § 5(b), the Court acknowledged that news articles were copyrightable. *Id.*, at 234. It flatly rejected, however, the notion that the copyright in an article extended to [*354] the factual information it contained: "The news element -- the information respecting current events contained in the literary production -- is not the creation of the writer, but is a report of matters that ordinarily are *publici juris*; it is the history of the day." *Ibid.* *

* The Court ultimately rendered judgment for Associated Press on non-copyright grounds that are not relevant here. See 248 U.S., at 235, 241-242.

Without a doubt, the "sweat of the brow" doctrine flouted basic copyright principles. Throughout history, copyright law has "recognized a greater need to disseminate factual works than works of fiction or fantasy." *Harper & Row*, 471 U.S., at 563. Accord, Gorman, Fact or Fancy: The Implications for Copyright, 29 J. Copyright Soc. 560, 563 (1982). But "sweat of the brow" courts took a contrary view; they handed out proprietary interests in facts and declared that authors are absolutely precluded from saving time and effort by relying upon the facts contained in prior works. In truth, "it is just such wasted effort that the proscription against the copyright of ideas and facts ... [is] designed to prevent." *Rosemont Enterprises, Inc. v. Random House, Inc.*, 366 F. 2d 303, 310 (CA2 1966), cert. denied, 385 U.S. 1009 (1967). "Protection for the fruits of such

research ... may in certain circumstances be available under a [***375] theory of unfair competition. But to accord copyright protection on this basis alone distorts basic copyright principles in that it creates a monopoly in public domain materials without the necessary justification of

protecting and encouraging the creation of 'writings' by 'authors.'" Nimmer § 3.04, p. 3-23 (footnote omitted).

GRAHAM ET AL. v. JOHN DEERE CO. OF KANSAS CITY ET AL.

**383 U.S. 1;
October 14, 1965, Argued**

SUPREME COURT OF THE UNITED STATES

PRIOR HISTORY:

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT.

**OPINIONBY:
CLARK**

[*3] [***548] [**686] MR. JUSTICE CLARK delivered the opinion of the Court.

After a lapse of 15 years, the Court again focuses its attention on the patentability of inventions under the standard of Art. I, § 8, cl. 8, of the Constitution and under the conditions prescribed by the laws of the United States. Since our last expression on patent validity, *A. & P. Tea Co. v. Supermarket Corp.*, 340 U.S. 147 (1950),

the Congress has for the first time expressly added a third statutory dimension to the two requirements of novelty and utility that had been the sole statutory test since the Patent Act of 1793. This is the test of obviousness, *i. e.*, whether "the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made." § 103 of the Patent Act of 1952, 35 U. S. C. § 103 (1964 ed.).

The questions, involved in each of the companion cases before us, are what effect the 1952 Act [***549] had upon traditional statutory and judicial tests of patentability and what definitive tests are now required. We have concluded that the 1952 Act was intended to

codify judicial precedents embracing the principle long ago [*4] announced by this Court in *Hotchkiss v. Greenwood*, 11 How. 248 (1851), and that, while the clear language of § 103 places emphasis on an inquiry into obviousness, the general [**687] level of innovation necessary to sustain patentability remains the same.

I.

At the outset it must be remembered that the federal patent power stems from a specific constitutional provision which authorizes the Congress "To promote the Progress of ... useful Arts, by securing for limited Times to ... Inventors the exclusive Right to their ... Discoveries." Art. I, § 8, [***550] cl. 8. n1 The clause is both a grant of power and a limitation. This qualified authority, unlike the power often exercised in the sixteenth and seventeenth centuries by the English Crown, is limited to the promotion of advances in the "useful arts." It was written against the backdrop of the practices -- eventually curtailed by the Statute of Monopolies -- of the Crown in granting monopolies to court favorites in goods or businesses which had long before been enjoyed by the public. See Meinhardt, *Inventions, Patents and Monopoly*, pp. [**688] 30-35 (London, 1946). The Congress in the [*6] exercise of the patent power may not overreach the restraints imposed by the stated constitutional purpose. Nor may it enlarge the patent monopoly without regard to the innovation, advancement or social benefit gained thereby. Moreover, 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. Innovation, advancement, and things which add to the sum of useful knowledge are inherent requisites in a patent system which by constitutional command must "promote the Progress of ... useful Arts." This is the *standard* expressed in the Constitution and it may not be ignored. And it is in this light that patent validity "requires reference to a standard written into the Constitution." *A. & P. Tea Co. v. Supermarket Corp.*, *supra*, at 154 (concurring opinion).

Within the limits of the constitutional grant, the Congress may, of course, implement the stated purpose of the Framers by selecting the policy which in its judgment best effectuates the constitutional aim. This is but a corollary to the grant to Congress of any Article I power. *Gibbons v. Ogden*, 9 Wheat. 1. Within the scope established by the Constitution, Congress may set out conditions and tests for patentability. *McClurg v. Kingsland*, 1 How. 202, 206. It is the duty of the Commissioner of Patents and of the courts in the administration of the patent system to give effect to the constitutional standard by appropriate application, in each case, of the statutory scheme of the Congress.

Congress quickly responded to the bidding of the Constitution by enacting the Patent Act of 1790 during the second session of the First Congress. It created an agency in the Department of State headed by the Secretary of State, the Secretary of the Department of War [*7] and the Attorney General, any two of whom could issue a patent for a period not exceeding 14 years to any petitioner that "hath ... invented or discovered any useful art, manufacture, ... or device, or any improvement therein not before known or used" if the board found that "the invention or discovery [was] sufficiently useful and important" 1 Stat. 110. This group, whose members administered the patent system along with their other public duties, was known by its own designation as "Commissioners for the Promotion of Useful Arts."

Thomas Jefferson, who as Secretary of State was a member of the group, was its moving spirit and might well be called the "first administrator of our patent system." See Federico, *Operation of the Patent Act of 1790*, 18 J. Pat. Off. Soc. 237, 238 (1936). He was not only an [***551] administrator of the patent system under the 1790 Act, but was also the author of the 1793 Patent Act. In addition, Jefferson was himself an inventor of great note. His unpatented improvements on plows, to mention but one line of his inventions, won acclaim and recognition on both sides of the

Atlantic. Because of his active interest and influence in the early development of the patent system, Jefferson's views on the general nature of the limited patent monopoly under the Constitution, as well as his conclusions as to conditions for patentability under the statutory scheme, are worthy of note.

Jefferson, like other Americans, had an instinctive aversion to monopolies. It was a monopoly on tea that sparked the Revolution and Jefferson certainly did not favor an equivalent form of monopoly under the new government. His abhorrence of monopoly extended initially to patents as well. From France, he wrote to Madison (July 1788) urging a Bill of Rights provision restricting monopoly, and as against the argument that [*8] limited [**689] monopoly might serve to incite "ingenuity," he argued forcefully that "the benefit even of limited monopolies is too doubtful to be opposed to that of their general suppression," V Writings of Thomas Jefferson, at 47 (Ford ed., 1895).

His views ripened, however, and in another letter to Madison (Aug. 1789) after the drafting of the Bill of Rights, Jefferson stated that he would have been pleased by an express provision in this form:

"Art. 9. Monopolies may be allowed to persons for their own productions in literature & their own inventions in the arts, for a term not exceeding -- years but for no longer term & no other purpose." *Id.*, at 113.

And he later wrote:

"Certainly an inventor ought to be allowed a right to the benefit of his invention for some certain time. ... Nobody wishes more than I do that ingenuity should receive a liberal encouragement." Letter to Oliver Evans (May 1807), V Writings of Thomas Jefferson, at 75-76 (Washington ed.).

Jefferson's philosophy on the nature and purpose of the patent monopoly is expressed in a

letter to Isaac McPherson (Aug. 1813), a portion of which we set out in the margin. n2 He rejected a natural-rights [***552] theory in [*9] intellectual property rights and clearly recognized the social and economic rationale of the patent system. The patent monopoly was not designed to secure to the inventor his natural right in his discoveries. Rather, it was a reward, an inducement, to bring forth new knowledge. The grant of an exclusive right to an invention was the creation of society -- at odds with the inherent free nature of disclosed ideas -- and was not to be freely given. Only inventions and discoveries which furthered human knowledge, and were new and useful, justified the special inducement of a limited private monopoly. Jefferson did not believe in granting patents for small details, obvious improvements, or frivolous devices. His writings evidence his insistence upon a high level of patentability.

**UNITED STATES of
America, Plaintiff-
Appellee, v. Ali
MOGHADAM,
Defendant-
Appellant.**

No. 98-2180.

**UNITED STATES
COURT OF
APPEALS FOR
THE ELEVENTH
CIRCUIT**

**175 F.3d 1269
May 19, 1999,
Decided**

Appeal from the United States District Court for the Middle District of Florida. (No. 97-53-CR-ORL-18). G. Kendall Sharp, Judge.

DISPOSITION:

Judgment of the district court AFFIRMED.

JUDGES:

Before ANDERSON, Chief Judge, HULL, Circuit Judge, and HAND *, Senior Circuit Judge.

OPINION:

[*1271] ANDERSON, Chief Judge:

In 1994, Congress passed a statute criminalizing the unauthorized recording, the transmission to the public, and the sale or distribution of or traffic in unauthorized recordings of live musical performances. *See* 18 U.S.C. § 2319A. Appellant Ali Moghadam was convicted of violating that law (herein sometimes referred to as the "anti-bootlegging [**2] statute") after he pleaded guilty to knowingly distributing, selling, and trafficking in bootleg (unauthorized) compact discs featuring live musical performances by

recording artists including Tori Amos and the Beastie Boys. The present appeal challenges the constitutional power of Congress to enact this legislation. n1 In the district court, Moghadam moved to dismiss the indictment, arguing that the statute was unconstitutional because it did not fall within any of the federal legislative powers enumerated in Article I, § 8 of the Constitution. The government responded that it was constitutional under either the Copyright Clause or the Commerce Clause. The district court denied the motion to dismiss. The constitutionality of the anti-bootlegging statute appears to be a question of first impression in the nation. For the reasons that follow, and in the limited circumstances of this case, we reject Moghadam's constitutional challenge, and therefore affirm Moghadam's conviction.

n1 In pleading guilty, Moghadam duly preserved his right to appeal.

[**3]

**I. BACKGROUND ON THE ANTI-
BOOTLEGGING STATUTE**

A brief overview of the history of statutory protection for music and musical performances is in order. Musicians or performers may enjoy copyright or copyright-like protection in three things, which are important to keep distinct. First, a musical composition itself has been protected by statute under copyright law since 1831. *See* 17 U.S.C. § 102(a)(2) (providing that "musical works, including any accompanying words" are protectable subject matter); Todd D. Patterson, Comment, *The Uruguay Round's Anti-Bootlegging Provision: A Victory for Musical Artists and Recording Companies*, 15 Wis. Int'l L.J. 371, 380-83 (1997). However, for most of the nation's history, sound recordings were not protected. *See* Patterson, *supra*, at 380 ("The important distinction between the first copyright statutes of 1831 and what would ultimately become the Sound Recording Act of 1971 is that

these early statutes protected the reproduction of musical notation rather than the reproduction of actual sound." In 1971, Congress extended copyright protection to sound recordings. Sound Recording Act of 1971, Pub.L. No. 92-140, 85 Stat. 391; n2 [**4] *see also* 17 U.S.C. § 102(a)(7) (including "sound recordings" in the list of copyrightable "works of authorship"). This meant that persons who made unauthorized reproductions of records or tapes, which is known as "piracy," n3 could be prosecuted or face civil liability for copyright infringement. *See* 17 U.S.C. § 114 (defining the scope of exclusive rights of the holder of a copyright in sound recordings). The copyright law, especially as amended by further statutes, n4 went far toward securing [**1272] the rights of musicians and recording artists to receive fair benefit from their creative efforts.

n2 The entire copyright code was subsequently overhauled by the Copyright Act of 1976, Pub.L. No. 94-553, 90 Stat. 2541, but the new statute carried forward the substance of the Sound Recording Act of 1971.

n3 "Piracy," which refers to an unauthorized duplication of a performance already reduced to a sound recording and commercially released, is conceptually distinct from "bootlegging," which has been defined as the making of "an unauthorized copy of a commercially unreleased performance." *Dowling v. United States*, 473 U.S. 207, 209 n. 2, 105 S. Ct. 3127, 3129 n.2, 87 L. Ed. 2d 152 (1985). [**5]

n4 *See* Piracy and Counterfeiting Amendments Act of 1982, Pub.L. No. 97-180, 96 Stat. 91 (codified at 18 U.S.C. § § 2318-2319) (imposing criminal liability for trafficking in counterfeit labels attached to phonorecords); Record Rental Amendment of 1984, Pub.L. No. 98-450, 98 Stat. 1727 (codified at 17 U.S.C. § § 109(b), 115(c)) (prohibiting rental of phonorecords to the

public for commercial advantage); Audio Home Recording Act of 1992, Pub.L. No. 102-563, 106 Stat. 4237 (codified at 17 U.S.C. § § 1001-1010) (implementing a royalty payment system and a serial copyright management system for digital audio recording); Digital Performance Rights in Sound Recordings Act of 1995, Pub.L. No. 104-39, 109 Stat. 336 (codified at scattered sections of 17 U.S.C.) (granting public performance rights for digital transmission of sound recordings).

However, following passage of the Sound Recording Act of 1971, a void still remained. No protection at the federal level extended directly to unrecorded live musical performances. n5 Therefore, a bootlegger could surreptitiously record a live musical performance [**6] and engage in unauthorized distribution of the recording or copies thereof, without having violated copyright law. This gap in copyright protection, exacerbated by the growing market for such bootleg copies, motivated Congress to enact the anti-bootlegging provision at issue in the instant case.

n5 There were and still are, however, numerous examples of statutory protection for live musical performances at the state level. *See, e.g.,* Fla. Stat. § 540.11(2)(a)(3).

The anti-bootlegging statute grew out of the Agreement on Trade Related Aspects of Intellectual Property ("TRIPs"), which has been described as "the highest expression to date of binding intellectual property law in the international arena." David Nimmer, *The End of Copyright*, 48 Vand. L.Rev. 1385, 1391-92 (1995) [hereinafter Nimmer, *The End of Copyright*]. TRIPs became law by operation of the Uruguay Round Agreements Act ("URAA"), Pub.L. No. 103-465, 108 Stat. 4809 (1994), a

comprehensive act dealing with matters of international trade. [**7] 18 U.S.C. § 2319A (which corresponds to § 513 of the URAA, 108 Stat. at 4975), provides, in pertinent part:

(a) Whoever, without the consent of the performer or performers involved, knowingly and for purposes of commercial advantage or private financial gain--

(1) fixes the sound or sounds and images of a live musical performance in a copy or phonorecord, or reproduces copies or phonorecords of such a performance from an unauthorized fixation;

(2) transmits or otherwise communicates to the public the sounds or sounds and images of a live musical performance; or

(3) distributes or offers to distribute, sells or offers to sell, rents or offers to rent, or traffics in any copy or phonorecord fixed as described in paragraph (1), regardless of whether the fixations occurred in the United States;

shall be imprisoned ... or fined ... or both....

The URAA also enacted a similar provision establishing civil liability for the same conduct (but omitting the commercial advantage or private financial gain requirement). *See* 17 U.S.C. § 1101 (corresponding to § 512 of the URAA, 108 Stat. at 4974). There is little legislative history dealing with either provision [**8] because the URAA was rushed through Congress on fast-track procedures. However, what little legislative history exists tends to suggest that Congress viewed the anti-bootlegging provisions as enacted pursuant to its Copyright Clause authority. *See* 140 Cong. Rec. H11441, H11457 (daily ed. Nov. 29, 1994) (statement of Rep. Hughes) ("There are a number of changes in copyright that will advance our interests in the area of bootlegging, which is going to basically protect our country.").

The rights created by the anti-bootlegging provisions in URAA are actually hybrid rights that

in some ways resemble the protections of copyright law but in other ways are distinct from them. *See* 3 Melville B. Nimmer & David Nimmer, *Nimmer* [*1273] *on Copyright* § 8E.03[B][1], at 8E-16 (1997) [hereinafter *Nimmer on Copyright*] ("The unfixed musical performances protected under [URAA] are accorded something approximating, but not equaling, copyright protection."). For example, although the civil provision is incorporated into Title 17 of the United States Code and borrows the remedies that apply to copyright infringement, neither the civil nor the criminal provision meshes with the overall structure [**9] of the copyright code. *See* Patterson, *supra*, at 410-12. Congress could have amended 17 U.S.C. § 102 to include live musical performances in the list of protectable subject matter, but it did not do so. Likewise, it is unclear whether longstanding concepts generally applicable to copyright law such as fair use, *see* 17 U.S.C. § 107, the work-for-hire doctrine, limited duration, *see* 17 U.S.C. § 302, and the statute of limitations, 17 U.S.C. § 507(b), carry over to the anti-bootlegging provisions. *See* 3 *Nimmer on Copyright, supra*, § 8E.03[B][2][b], at 8E-13 to 23; *see also* Susan M. Deas, *Jazzing up the Copyright Act? Resolving the Uncertainties of the United States Anti-Bootlegging Law*, 20 Hastings Comm. & Ent. L.J. 567, 599-623 (1998) (providing detailed treatment of the host of interpretive problems associated with the anti-bootlegging statute); Nimmer, *The End of Copyright, supra*, at 1399 ("The provision of the law is so simple ... and the language that Congress legislated so sparse, that most questions one could ask are simply not addressed in its implementation."). Finally, in contrast to the six exclusive rights of a copyright owner [**10] spelled out in 17 U.S.C. § 106, it appears that the only exclusive right created by the anti-bootlegging statute is to record and/or re-communicate one's performance. n6 For all of these reasons, the protections that the anti-bootlegging statutes confer on musicians are best described as "quasi-copyright" or *sui generis* protections.

n6 We raise these complexities only to differentiate between this statute and pure copyright provisions. Because none of them is implicated by the instant case and Moghadam's conduct falls squarely within the anti-bootlegging statute, we need not speculate as to the appropriate resolution of these questions.

II. WHETHER THE ANTI-BOOTLEGGING STATUTE CAN BE SUSTAINED UNDER THE COPYRIGHT CLAUSE OF THE CONSTITUTION

Our analysis of the constitutionality of § 2319A begins with the Copyright Clause of the United States Constitution. By that Clause, Congress is empowered "to promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors [**11] the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8. n7 This positive grant of legislative authority includes several limitations. *See, e.g., Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*, 499 U.S. 340, 111 S. Ct. 1282, 113 L. Ed. 2d 358 (1991) (holding that the word "Writings" in the Copyright Clause allows Congress to extend protection only to works of authorship that are original). Of these limitations, Moghadam has relied in the instant case only on the concept of "fixation" which is said to be embedded in the term "Writings."

n7 The word "Discoveries" is thought to refer to the counterpart area of patent law. *See 1 Nimmer on Copyright, supra*, § 1.08, at 1-66.25 n. 1.

The concept of fixation suggests that works are not copyrightable unless reduced to some tangible form. "If the word 'writings' is to be given

any meaning whatsoever, it must, at the very least, denote some material form, capable of identification and having a more or less [**12] permanent endurance." 1 *Nimmer on Copyright, supra*, § 1.08[C][2], at 1-66.30 (internal quotation marks omitted); *see also Goldstein v. California*, 412 U.S. 546, 561, 93 S. Ct. 2303, 37 L. Ed. 2d 163 (1973) ("Writings ... may be interpreted to include any [**1274] physical rendering of the fruits of creative intellectual or aesthetic labor."). Of course, the term "Writings" has been interpreted so broadly as to include much more than writings in the literal sense, or the lay definition of the word. n8 *See 17 U.S.C. § 102(a)(4)* (pantomimes and choreographic works); *id. § 102(a)(6)* (motion pictures and other audiovisual works); *id. § 102(a)(7)* (sound recordings); 1 *Nimmer on Copyright, supra*, § 1.08[B], at 1-66.25-26. In fact, since a sound recording qualifies as a "Writing" in the constitutional sense, *Shaab v. Kleindienst*, 345 F. Supp. 589, 590 (D.D.C.1972) (per curiam), "it is now clear that a writing may be perceptible either visually or aurally," 1 *Nimmer on Copyright, supra*, § 1.08[B], at 1-66.27. But the fixation requirement seems to have persisted through this expansion. Thus, although in the modern era the term "Writings" allows Congress to [**13] extend copyright protection to a great many things, those things have always involved some fixed, tangible and durable form. *See Goldstein*, 412 U.S. at 561, 93 S. Ct. 2303 ("Writings ... may be interpreted to include any physical rendering of the fruits of creative intellectual or aesthetic labor."); *Burrow-Giles Lithographic Co. v. Sarony*, 111 U.S. 53, 58, 4 S. Ct. 279, 281, 28 L. Ed. 349 (1884) (defining "Writings" as "all forms of writing, printing, engraving, etching, etc., by which the ideas of the mind of the author are given visible expression").

n8 Rejecting the notion that the Constitution "embalms inflexibly the habits of 1789," Judge Learned Hand wrote that the Copyright Clause's "grants of power to

Congress comprise not only what was then known, but what the ingenuity of men should devise thereafter. Of course, the new subject matter must have some relation to the grant, but we interpret by the general practice of civilized people in similar fields, for it is not a strait-jacket but a charter for a living people." *Reiss v. National Quotation Bureau*, 276 F. 717, 719 (S.D.N.Y.1921).

[**14]

Moghadam argues that a live performance, by definition, has not been reduced to a tangible form or fixed as of the time of the performance. *See Nimmer, The End of Copyright, supra*, at 1409 ("No respectable interpretation of the word 'writings' embraces an untaped performance of someone singing at Carnegie Hall."); *Deas, supra.*, at 570 ("The most obvious constitutional departure found in the [anti-bootlegging law] is how [it] extends protection to unfixed material under the authority of a congressional enactment."). Moghadam argues that, but for the bootlegger's decision to record, a live performance is fleeting and evanescent.

Because we affirm the conviction in the instant case on the basis of an alternative source of Congressional power, we decline to decide in this case whether the fixation concept of Copyright Clause can be expanded so as to encompass live performances that are merely capable of being reduced to tangible form, but have not been. n9 For purposes of this case, we assume *arguendo*, without deciding, that [**15] the above described problems with the fixation requirement would preclude the use of the Copyright Clause as a source of Congressional power for the anti-bootlegging statute.

n9 We note that the anti-bootlegging statute may be faced with another constitutional problem under the Copyright Clause. The Clause allows Congress to

extend protection to authors only for "Limited Times." The protection afforded to live performances by § 2319A, however, contains no express time limitation and would arguably persist indefinitely. However, Moghadam has not preserved this argument, *see infra*, and we decline to address the argument in light of our disposition of this case.

III. WHETHER THE ANTI-BOOTLEGGING STATUTE CAN BE SUSTAINED UNDER THE COMMERCE CLAUSE OF THE CONSTITUTION

The government contends, however, that the anti-bootlegging statute is permissible legislation under Congress's [**1275] Commerce Clause power. n10 Congress has the legislative authority "to regulate Commerce with foreign Nations, and among the several [**16] States." U.S. Const. art. I, § 8, cl. 3. The Commerce Clause empowers Congress to legislate regarding three things: (i) the use of channels of interstate commerce; (ii) instrumentalities and persons or things in interstate commerce; and (iii) intrastate activities that substantially affect interstate commerce. *United States v. Lopez*, 514 U.S. 549, 558-59, 115 S. Ct. 1624, 1629-30, 131 L. Ed. 2d 626 (1995). Our analysis here focuses on the third category of appropriate legislation. The applicable test is "whether a rational basis existed for concluding that a regulated activity sufficiently affected interstate commerce." *Id.* at 557, 115 S. Ct. at 1629. To survive Commerce Clause scrutiny, § 2319A " 'must bear more than a generic relationship several steps removed from interstate commerce, and it must be a relationship that is apparent, not creatively inferred.' " *United States v. Wright*, 117 F.3d 1265, 1270 (11th Cir.1997) (quoting *United States v. Kenney*, 91 F.3d 884, 888 (7th Cir.1996)), *vacated in part on other grounds*, 133 F.3d 1412 (11th Cir.), *cert. denied*, U.S. , 119 S. Ct. 217, 142 L. Ed. 2d 178 (1998).

n10 Congress's failure to cite the Commerce Clause as grounds for § 2319A does not eliminate the possibility that the Commerce Clause can sustain this legislation. "The constitutionality of action taken by Congress does not depend on recitals of the power which it undertakes to exercise," *Woods v. Cloyd W. Miller Co.*, 333 U.S. 138, 144, 68 S. Ct. 421, 92 L. Ed. 596 (1948), and "in exercising the power of judicial review," we look only at "the actual powers of the national government," *Timmer v. Michigan Dept. of Commerce*, 104 F.3d 833, 839 (6th Cir.1997) (emphasis added).

[**17]

Because Congress thought it was acting under the Copyright Clause, predictably there are no legislative findings in the record regarding the effect of bootlegging of live musical performances on interstate or foreign commerce. Such findings are normally helpful to a court in finding an interstate commerce nexus. *See Cheffer v. Reno*, 55 F.3d 1517, 1520 (11th Cir.1995) (upholding statute regarding freedom of access to abortion clinics under the Commerce Clause and relying on a plethora of specific legislative findings in the record regarding the effect of violence and physical obstruction on commerce in reproductive health services); *see also United States v. Viscome*, 144 F.3d 1365, 1371 (11th Cir.) (holding that "explicit findings that the proscribed activity in issue substantially affected interstate commerce" are accorded "substantial deference"), *cert. denied*, U.S. , 119 S. Ct. 362, 142 L. Ed. 2d 299 (1998). However, the lack of such findings does not rule out the Commerce Clause as a possible source of legislative authority applicable to the statute under challenge. *Wright*, 117 F.3d at 1269. In *Lopez*, the Court said that although "congressional [**18] findings would enable us to evaluate the legislative judgment that the activity

in question substantially affected interstate commerce, even though no such substantial effect was visible to the naked eye," *Lopez*, 514 U.S. at 563, 115 S. Ct. at 1632, "Congress normally is not required to make [such] formal findings," *id.* at 562, 115 S. Ct. at 1631.

Section 2319A also contains no jurisdictional element as is commonly found in criminal statutes passed under authority of the Commerce Clause. That is, there is no requirement that, for example, the bootleg copies or phonorecords have traveled in interstate or foreign commerce. Just as legislative findings can help fortify a statute against Commerce Clause scrutiny, a jurisdictional element is helpful because it ensures that each individual case will necessarily satisfy the required interstate commerce nexus. *Lopez*, 514 U.S. at 562, 115 S. Ct. at 1631 (noting that express jurisdictional elements "limit [a statute's] reach to a discrete set of [offenses] that additionally have an explicit connection with or effect on interstate commerce"). However, the absence of such a jurisdictional [*1276] element connecting the offense to interstate [**19] or foreign commerce does not necessarily mean the Commerce Clause cannot serve as authority. *Wright*, 117 F.3d at 1269; *see also Viscome*, 144 F.3d at 1371 & n. 12 (noting that even though Congress had recently amended statute criminalizing possession of machineguns to include jurisdictional element, that did not necessarily mean previous version of statute without jurisdictional element exceeded Commerce Clause authority); *United States v. Olin Corp.*, 107 F.3d 1506, 1510 (11th Cir.1997) ("Although Congress did not include in CERCLA either legislative findings or a jurisdictional element, the statute remains valid as applied in this case because it regulates a class of activities that substantially affects interstate commerce."). The absence of such a jurisdictional element simply means that "courts must determine independently whether the statute regulates 'activities that arise out of or are connected with a commercial transaction, which viewed in the aggregate, substantially affect[] interstate commerce.'" *Olin*

Corp., 107 F.3d at 1509 (quoting *Lopez*, 514 U.S. at 561, 115 S. Ct. at 1631).

Section 2319A clearly prohibits conduct that has a substantial effect [**20] on both commerce between the several states and commerce with foreign nations. The link between bootleg compact discs and interstate commerce and commerce with foreign nations is self-evident. For example, one of the elements of the offense is that the activity must have been done "for purposes of commercial advantage or private financial gain." 18 U.S.C. § 2319A(a). If bootlegging is done for financial gain, it necessarily is intertwined with commerce. Bootleggers depress the legitimate markets because demand is satisfied through unauthorized channels. *Cf. Wickard v. Filburn*, 317 U.S. 111, 127-28, 63 S. Ct. 82, 90-91, 87 L. Ed. 122 (1942) (finding an interstate commerce nexus sufficient to support federally mandated wheat growing limits in the fact that farmers who grew wheat for home consumption would not buy wheat in the normal market, thereby depressing commerce). Generally speaking, performing artists who attract bootleggers are those who are sufficiently popular that their appeal crosses state or national lines. The very reason Congress prohibited this conduct is because of the deleterious economic effect on the recording industry. n11 The specific context in which § 2319A was [**21] enacted involved a treaty with foreign nations, called for by the World Trade Organization, whose purpose was to ensure uniform recognition and treatment of intellectual property in international commerce. The context reveals that the focus of Congress was on interstate and international commerce.

n11 The government's brief in the instant case traced the impact that bootlegging of live performances has on commerce:

The trafficking in bootleg sound recordings results in unjust enrichment of persons who unfairly appropriate the

intellectual property and potential profits of sound recording companies and artists. The regulated activity thus substantially affects the profitability and viability of the aggregate sound recording industry. In other words, trafficking in bootleg sound recordings substantially affects and threatens the continuous interstate commercial activity generated by the artists and sound recording companies, which incur significant risks in the nationwide marketing of the fixed sounds of live musical performances.

Government's Initial Brief at 15.

[**22]

Moreover, the type of conduct that Congress intended to regulate by passing the anti-bootlegging statute is by its very nature economic activity, which distinguishes the statute from the Gun-Free School Zones Act struck down in *Lopez*, which in criminalizing the possession of handguns within 1000 feet of a school, "had nothing to do with 'commerce' or any sort of economic enterprise, however broadly one might define those terms." *Lopez*, 514 U.S. at 561, 115 S. Ct. at 1630-31. *See also* Nimmer, *The End of Copyright*, *supra*, at 1410 n.155 ("Although [*Lopez*] demonstrates [*1277] that Congress's power under the Commerce Clause is not infinite, it does not remotely threaten the viability of this trade law, given how close to the core of economic activity the Uruguay Round Agreements lie."). We hold that the anti-bootlegging statute has a sufficient connection to interstate and foreign commerce to meet the *Lopez* test.

The more difficult question in this case is whether Congress can use its Commerce Clause power to avoid the limitations that might prevent it from passing the same legislation under the Copyright Clause. As noted above, we assume *arguendo* that the Copyright [**23] Clause could not sustain this legislation because live

performances, being unfixed, are not encompassed by the term "Writings" which includes a fixation requirement. The government argues that the anti-bootlegging conviction in this case can be sustained under the Commerce Clause. We turn now to this issue.

In general, the various grants of legislative authority contained in the Constitution stand alone and must be independently analyzed. In other words, each of the powers of Congress is alternative to all of the other powers, and what cannot be done under one of them may very well be doable under another. Perhaps the most prominent example of this principle is *Heart of Atlanta Motel, Inc. v. United States*, 379 U.S. 241, 85 S. Ct. 348, 13 L. Ed. 2d 258 (1964). There, the Supreme Court considered the constitutionality of the public accommodation provisions of the Civil Rights Act of 1964. The earlier *Civil Rights Cases*, 109 U.S. 3, 3 S. Ct. 18, 27 L. Ed. 835 (1883), had declared unconstitutional similar provisions of the Civil Rights Act of 1875 because they regulated private conduct beyond the scope of the legislative authority granted by § 5 of the Fourteenth Amendment. [**24] Yet, the *Heart of Atlanta Motel* Court held, the Civil Rights Act of 1964 was predicated on the Commerce Clause and possessed sufficient connection to interstate commerce. *See Heart of Atlanta Motel*, 379 U.S. at 250, 85 S. Ct. at 354. The Court's reasoning illustrates that, as a general matter, the fact that legislation reaches beyond the limits of one grant of legislative power has no bearing on whether it can be sustained under another. *Id.* (concluding that Congress possessed ample power pursuant to the Commerce Clause, and "we have therefore not considered the other grounds relied upon. This is not to say that the remaining authority upon which it acted was not adequate, a question upon which we do not pass, but merely that since the commerce power is sufficient for our decision here we have considered it alone"); *see also South Dakota v. Dole*, 483 U.S. 203, 207, 107 S. Ct. 2793, 2796, 97 L. Ed. 2d 171 (1987) (holding that pursuant to the Spending

Clause, U.S. Const. art. I, § 8, cl. 1, Congress may condition its appropriation of money to the states on their agreement to impose restrictions that would be beyond Congress's constitutional legislative authority to enact directly). [**25]

This general approach has been applied in a context involving the Copyright Clause and the Commerce Clause as alternative sources of Congressional power. The *Trade-Mark Cases*, 100 U.S. 82, 25 L. Ed. 550 (1879), involved an 1876 Congressional enactment of a primitive sort of trademark protection, long before the modern-day Lanham Act. Act of Aug. 14, 1876, 19 Stat. 141 ("1876 Act"). This statute conferred protection on, and prohibited the counterfeiting of, various types of trademarks. The defendants were criminally prosecuted under the 1876 Act for trying to pass off imitation beverage products as brand-name by imitating famous trademarks of well-known beverage makers. The defendants challenged the constitutionality of the 1876 Act, arguing that Congress did not have legislative authority to enact it. As in the instant case, the government responded by proffering the Copyright Clause and Commerce Clause as alternative possible bases of legislative authority.

[*1278] Apparently, just as was the case with the anti-bootlegging statute, Congress labored under the impression that it was acting pursuant to its Copyright Clause power. *The Trade-Mark Cases*, 100 U.S. at [**26] 93 ("Until a critical examination of the subject in the courts became necessary, it was mainly if not wholly to [the Copyright C]lause that the advocates of the law looked for its support."). Nevertheless, the Supreme Court held that the Copyright Clause could not sustain the 1876 Act because "the ordinary trade-mark has no necessary relation to invention or discovery," which were the hallmarks of protectable subject matter under the Copyright Clause. *Id.* 94. Trademarks are inherently commercial; the concept behind the 1876 Act (and modern trademark law) was not to encourage intellectual and artistic development, but rather to protect businesses from predatory behavior in the

marketplace. *See id.* ("[A trademark] requires no fancy or imagination, no genius, no laborious thought. It is simply founded on priority of appropriation."). These characteristics made trademarks substantively different from the material the Congress was constitutionally able to protect pursuant to the Copyright Clause. A trademark could be registered under the 1876 Act even without any showing of originality. "While such legislation may be judicious aid ... [**27] and may be within the competency of legislatures whose general powers embrace that class of subjects," the Court held, "we are unable to see any such power in the constitutional provision concerning authors and inventors, and their writings and discoveries." *Id.*

The Court next considered whether Congress could enact the 1876 Act under the Commerce Clause. The Court summarized the government's argument at the outset as that "the trade-mark is ... a useful and valuable aid or instrument of commerce, and its regulation by virtue of the [Commerce C]ause belongs to Congress." *Id.*, at 95. The Court appeared receptive to this argument. However, it must be remembered that the *Trade-Mark Cases* predated the New Deal-era expansion of the Commerce Clause. In the nineteenth century, "there still remained a very large amount of commerce, perhaps the largest, which, being trade or traffic between citizens of the same State, [was] beyond the control of Congress." *Id.*, at 96. Unfortunately (but understandably, since Congress had labored under the impression that it was authorized to enact the 1876 Act under its Copyright Clause power), there [**28] was no jurisdictional-type element in the 1876 Act to ensure that trademark protection would extend only insofar as related to interstate commerce. *See id.*, at 97 ("Here is no requirement that [a person receiving trademark protection] shall be engaged in the kind of commerce which Congress is authorized to regulate."). Consequently, the Court ultimately struck down the 1876 Act as not sustainable under either the Copyright Clause or the Commerce Clause.

Although the 1876 Act did not survive due to the restrictive view of the Commerce Clause prevailing at that time, the Supreme Court's analysis in the *Trade-Mark Cases* stands for the proposition that legislation which would not be permitted under the Copyright Clause *could* nonetheless be permitted under the Commerce Clause, provided that the independent requirements of the latter are met. Of course, we have already held that the anti-bootlegging statute satisfies the "substantial effects" test of post-*Lopez* Commerce Clause jurisprudence. The analysis in the *Trade-Mark Cases* tends to refute the argument that Congress is automatically forbidden from extending protection under some other grant of [**29] legislative authority to works that may not be constitutionally protectable under the Copyright Clause. Indeed, modern trademark law is built entirely on the Commerce Clause, *see, e.g., Jellibeans, Inc. v. Skating Clubs of Ga., Inc.*, 716 F.2d 833, 838 (11th Cir.1983), and we have found no case which suggests that trademark law's conferral of protection on unoriginal works somehow runs afoul of [*1279] the Copyright Clause. *See* Michael B. Gerdes, Comment, *Getting Beyond Constitutionally Mandated Originality as a Prerequisite for Federal Copyright Protection*, 24 Ariz. St. L.J. 1461, 1471 (1992) ("The constitutionality of current federal trademark legislation ... supports the conclusion that the Copyright Clause does not limit Congress's Commerce Clause power to grant copyright-like protection.").

A similar analysis was adopted by the Second Circuit in *Authors League of America, Inc. v. Oman*, 790 F.2d 220 (2d Cir.1986). There, the issue was the constitutionality of 17 U.S.C. § 601, a now-expired provision designed to protect the domestic book publishing and printing industries by restricting the importation of copyrighted, nondramatic literary works which were published abroad. [**30] The plaintiffs argued, *inter alia*, that this statute went beyond Congress's legislative power under the Copyright Clause

because of the introductory language in the Clause which restricts such legislation to that which helps to "promote the Progress of ... useful Arts." Section 601, the plaintiffs argued, was essentially protectionist economic legislation that did not serve that purpose. The Second Circuit responded to this argument as follows:

What plaintiffs' argument fails to acknowledge, however, is that the copyright clause is not the only constitutional source of congressional power that could justify [§ 601]. In our view, denial of copyright protection to certain foreign-manufactured works is clearly justified as an exercise of the legislature's power to regulate commerce with foreign nations.

790 F.2d at 224. The *Authors League* analysis suggests that the Commerce Clause may be used to accomplish that which the Copyright Clause may not allow.

On the other hand, it might be argued that some of the grants of legislative authority in Article I, § 8 contain significant limitations that can be said to represent the Framers' judgment that Congress should [**31] be affirmatively prohibited from passing certain types of legislation, no matter under which provision. The Supreme Court touched on such a situation in *Railway Labor Executives' Ass'n v. Gibbons*, 455 U.S. 457, 102 S. Ct. 1169, 71 L. Ed. 2d 335 (1982). Congress had enacted a statute that purported to alter a pending bankruptcy case by requiring the debtor railroad company's bankruptcy estate to pay \$ 75 million to the company's former employees. This statute directly clashed with the Bankruptcy Clause, U.S. Const. art. I, § 8, cl. 4, which provides that Congress is empowered to pass "uniform" bankruptcy laws, because the law targeted a particular situation and was anything but uniform. The Court quickly brushed off the possibility that the legislation could nevertheless be sustained under the Commerce Clause (which contains no uniformity requirement), stating that "if we were to hold that Congress had the power to enact nonuniform bankruptcy laws pursuant to the

Commerce Clause, we would eradicate from the Constitution a limitation on the power of Congress to enact bankruptcy laws." *Id.* at 468-69, 102 S. Ct. at 1176. In *Railway Labor Executives*, the statute that Congress [**32] passed directly conflicted with the uniformity requirement of the Bankruptcy Clause. *Cf.* Paul J. Heald, *The Vices of Originality*, 1991 Sup.Ct. Rev. 143, 168-75 (arguing that Congress would not be able to circumvent the *originality* requirement inherent in the term "Writings" in the Copyright Clause by passing a statute under the Commerce Clause which extended copyright-like protection to unoriginal works).

We note that there is some tension between the former line of cases (*Heart of Atlanta Motel*, the *Trade-Mark Cases* and *Authors League*) and the *Railway Labor Executives* case. The former cases suggest that in some circumstances the Commerce Clause can be used by Congress to accomplish something that the Copyright Clause might not allow. But the *Railway Labor Executives* case suggests that in some circumstances the Commerce Clause cannot be used to eradicate a limitation placed upon Congressional [**1280] power in another grant of power. For purposes of the instant case, we resolve this tension in the following manner. In resolving this tension and in reaching our conclusion in this case, we undertake a circumscribed analysis, deciding only what is necessary to decide [**33] this case, and we reach a narrow conclusion. First, as described above, we hold the anti-bootlegging statute satisfies the "substantial effects" test of the post-*Lopez* Commerce Clause jurisprudence. Second, following the former line of cases (*Heart of Atlanta Hotel*, the *Trade-Mark Cases* and *Authors League*), we hold that in some circumstances the Commerce Clause indeed may be used to accomplish that which may not have been permissible under the Copyright Clause. We hold that the instant case is one such circumstance in which the Commerce Clause may be thus used. It is at this point that we must resolve the tension with *Railway Labor Executives*.

Resolving this tension, we take as a given that there are some circumstances, as illustrated by *Railway Labor Executives*, in which the Commerce Clause cannot be used by Congress to eradicate a limitation placed upon Congress in another grant of power. n12 For the reasons that follow, we hold that the instant case is not one such circumstance. We hold that the Copyright Clause does not envision that Congress is positively forbidden from extending copyright-like protection under other constitutional clauses, such as the Commerce [**34] Clause, to works of authorship that may not meet the fixation requirement inherent in the term "Writings." The grant itself is stated in positive terms, and does not imply any negative pregnant that suggests that the term "Writings" operates as a ceiling on Congress' ability to legislate pursuant to other grants. Extending quasi-copyright protection to unfixed live musical performances is in no way inconsistent with the Copyright Clause, even if that Clause itself does not directly authorize such protection. Quite the contrary, extending such protection actually complements and is in harmony with the existing scheme that Congress has set up under the Copyright Clause. n13 A live musical performance clearly satisfies the originality requirement. Extending quasi-copyright protection also furthers the purpose of the Copyright Clause to promote the progress of the useful arts by securing some exclusive rights to the creative author. Finally, with respect to the fixation requirement, upon which this opinion focuses, although a live musical performance may not have been fixed, or reduced to tangible form, as of the time the bootleg copy was made, it certainly was subject to having been thus [**35] fixed. Our conclusion that extending copyright-like protection in the instant case is not fundamentally inconsistent with the fixation requirement of the Copyright Clause is bolstered by an example from the prior copyright law. If a live performance is broadcast, e.g., by radio or television, and simultaneously recorded by the performer, any unauthorized recording by a person receiving the broadcast constitutes copyright infringement of the

sound recording or motion picture, notwithstanding that the infringer actually copied the live performance directly, and not the fixation thereof. This result is based upon the last sentence of the definition of "fixed" in 17 U.S.C. § 101. That last sentence provides: "A work consisting of sounds, images, or both, that are being transmitted, is 'fixed' for purposes of this title if a fixation of the work is being made simultaneously with its transmission." This definition creates a legal fiction that the simultaneous fixation occurs before the [*1281] transmission and the unauthorized recording. See H.R. Rep. 94-1476, (1976) at 52-53, reprinted in 1976 U.S.C.C.A.N. 5659, 5665-66; 1 *Nimmer on Copyright*, supra, § 1.08[C][2], at 1-66.32 ("It is [**36] as if one who was dictating live into a tape recorder were overheard and copied at the moment of dictation. At that moment, the material has become a 'writing,' even if copied simultaneously, rather than a moment later."). While we are aware that the constitutionality of this aspect of the statute has never been tested, the ease with which it has been incorporated into the prior copyright law suggests that fixation, as a constitutional concept, is something less than a rigid, inflexible barrier to Congressional power. Indeed, if a performer under the prior law could effectively protect a live musical performance, circumventing the fixation requirement, simply by the device of simultaneous recordation, the anti-bootlegging law seems to us like more of an incremental change than a constitutional breakthrough. Common sense does not indicate that extending copyright-like protection to a live performance is fundamentally inconsistent with the Copyright Clause.

n12 We assume *arguendo*, without deciding, that the Commerce Clause could not be used to avoid a limitation in the Copyright Clause if the particular use of the Commerce Clause (e.g., the anti-bootlegging statute) were fundamentally inconsistent with the particular limitation in

the Copyright Clause (e.g., the fixation requirement). [**37]

n13 In light of our disposition of this case, we need not address the Necessary and Proper Clause, U.S. Const. art. I, § 8, cl. 18, as a possible source of Congressional power.

For the foregoing reasons, we conclude that extending copyright-like protection in the instant case is not fundamentally inconsistent with the fixation requirement of the Copyright Clause. By contrast, the nonuniform bankruptcy statute at issue in *Railway Labor Executives* was irreconcilably inconsistent with the uniformity requirement of the Bankruptcy Clause of the Constitution. n14

n14 Our holding is limited to the fixation requirement, and should not be taken as authority that the other various limitations in the Copyright Clause can be avoided by reference to the Commerce Clause. Compare Nimmer, *The End of Copyright*, *supra*, at 1413 (decrying that Congress may "jettison *Feist*" by analogy to the URAA because "why is a telephone book any further afield than a performance at Carnegie Hall?"), with Gerdes, *supra*, at 1461 (proposing that Congress legislatively overrule *Feist* and extend copyright protection to unoriginal works by relying on the Commerce Clause).

[**38]

We note that there is another limitation in the Copyright Clause that may be implicated by the anti-bootlegging statute: the "Limited Times" requirement that forbids Congress from conferring intellectual property rights of perpetual duration. See *Pennock v. Dialogue*, 27 U.S. (2 Pet.) 1, 16-17, 7 L. Ed. 327, 333 (1829). On its face, the protection created by the anti-bootlegging statute

is apparently perpetual and contains no express time limit; therefore phonorecords of live musical performances would presumably never fall into the public domain. See Nimmer, *The End of Copyright*, *supra*, at 1411 ("The Caruso example of protecting a work from a century ago and for centuries into the future ... is the antithesis of 'limited times.'"); see also *Goldstein v. California*, 412 U.S. 546, 560-61, 93 S. Ct. 2303, 2312, 37 L. Ed. 2d 163 (1973) (suggesting that a copyright of unlimited duration would have a tendency to inhibit the progress of the arts). However, because Moghadam has not challenged the constitutionality of § 2319A on this basis, n15 we decline to raise the issue *sua sponte*. Thus, we do not decide in this case whether extending copyright-like protection under the [**39] anti-bootlegging statute might be fundamentally inconsistent with the "Limited Times" requirement of the Copyright Clause, and we do not decide in this case whether the Commerce Clause can provide the source of Congressional power to sustain the application of the anti-bootlegging statute in some other case in which such an argument is preserved. We reserve those issues for another day.

n15 Moghadam did not make this argument in the district court or in his brief on appeal. He fleetingly mentions the "Limited Times" requirement for the first time in his reply brief on appeal, and even then does not argue that extending copyright-like protection in this case pursuant to the Commerce Clause would be prohibited by an inconsistency with the "Limited Times" requirement of the Copyright Clause. The government has not had any opportunity to present a defense to such an argument, and it would be unfair to entertain the argument at this late date.

[*1282] Summarizing our narrow holding in this case, we assume *arguendo*, without [**40]

deciding, that the anti-bootlegging statute cannot satisfy the fixation requirement of the Copyright Clause; we hold that the statute satisfies the "substantial effects" test of the post-*Lopez* Commerce Clause jurisprudence; we hold that the Commerce Clause can provide the source of Congressional power in this case because the extension of copyright-like protection here is not fundamentally inconsistent with the fixation requirement of the Copyright Clause; n16 and thus under the circumstances of this case, n17 we reject Moghadam's constitutional challenge to his conviction.

n16 Because we find no such inconsistency, we need not decide the consequences if there were inconsistency. *See* note 12, *supra*.

n17 As noted above, Moghadam has waived any constitutional challenge based on the "Limited Times" requirement of the Copyright Clause, and thus our holding in this case is further narrowed by the fact that we do not address potential arguments based on the "Limited Times" requirement.

IV. CONCLUSION [**41]

For the foregoing reasons, n18 the judgment of the district court is AFFIRMED.

Copyright Term Extension

1. History of Copyright (from the plaintiff's brief in *Eldred v. Reno*)

The 1790 Copyright Act. Pursuant to the authority granted under Article I, § 8, cl. 8, Congress has enacted a series of laws providing for copyrights for a variety of literary and artistic works. 17 U.S.C. § 101 et seq. The original copyright statute, enacted in 1790, was quite limited. The 1790 Copyright Act regulated only the "printing" and sale of "map[s], chart[s] and . . . book[s]" and conferred an initial copyright term of 14 years. Act of May 31, 1790, § 1, 1 Stat. 124. Except for this narrow restriction, authors and citizens were generally free to draw upon aspects of our common culture in other writings, and publications.[FN1] Most early copyrights, in fact, were for scientific or instructional texts. John Tebbel, *A History of Book Publishing in the United States, The Creation of an Industry 1630-1865* 142 (R.R. Bowker, 1972).

Most writing was not even eligible for copyright protection, since it was not something that was "published." And, because the requirements of registration were relatively severe, most work was simply in the public domain.[FN2] Over the course of the 19th century, Congress and the courts slowly increased the scope of copyright's reach. More "writing" was included within the scope of the copyright act, and the scope of the exclusive right protected under copyright increased as well. Benjamin Kaplan, *An Unhurried View of Copyright* 36 (1967).

Most early copyrights, moreover, did not extend for the maximum statutory term because they were not renewed. Upon the expiration of the initial term of a copyright, the copyright holder could apply for an extension, or "renewal" term, of the copyright. If the copyright holder did not do so,

the work would fall into the public domain. The vast majority of copyrighted works, in fact, were not renewed and therefore came into the public domain after their initial term.

While the scope of copyright increased during the 19th century, Congress lengthened copyright's duration only once. In 1831, Congress extended the initial term for copyrights from 14 to 28 years, while leaving the renewal term at 14 years. Act of February 2, 1831, §§ 1-2, 4 Stat. 36. Thus, for the first 119 years of our republic, the maximum term of copyright was 42 years. (A 46.)

The 1909 Copyright Act. In 1909, Congress thoroughly revised the copyright laws. First, Congress codified and extended copyrights' scope, purporting to reach "all the writings of an author." Act of March 4, 1909, § 4, 35 Stat. 1075, 1076. Second, it increased copyrights' length, extending the renewal term by 14 years, bringing it to a total of 28 years. Id. §§ 23-24. The maximum term under the 1909 statute thus became 56 years. Id.

The 1909 Act controlled copyright for the first three quarters of this century. Although it extended the duration of the copyright term, the Act maintained the device of renewal. And, as before, few copyrights extended to the maximum 56-year term because most copyrights were not renewed. In fact, the Copyright Office estimated that no more than 15% of initial copyrights were renewed under the 1909 Act. See Barbara A. Ringer, *Renewal of Copyright*, in *Studies on Copyright* 503, 514-16 (Arthur Fisher Memorial ed. 1963). Simple algebra reveals that the effective term under the 1909 Act was less than 33 years.

Congress's Extension of Copyright Terms. A vast amount of extraordinary work was created and copyrighted under the terms of the 1909 statute. This included all early motion pictures, the music of the Jazz Age, the fiction of Hemingway

and Fitzgerald, and the poetry of Robert Frost. That work, if renewed, would have started to come into the public domain in 1965. Beginning in 1962, however, Congress began to extend the terms of subsisting copyrights, keeping them from passing from the control of the copyright holders.

At first these extensions of subsisting rights affected relatively few "classes" of copyrights. The initial statute, passed in 1962, extended the term of subsisting copyrights until December 31, 1965. In other words, that statute affected only copyrights issued in 1906, 1907 and 1908. Congress' second extension extended the term of subsisting rights to December 31, 1967. That statute thus benefited copyright holders whose initial rights were granted from 1906 to 1910. Each year in 1967, 1968 and 1969, Congress did the same thing again. This pattern repeated itself until 1974, by which time the terms of 14 years of copyright classes (1908 through 1921) had been so extended.

1976 Copyright Act. In 1976, Congress made a significant change in the structure of the Copyright Act. The 1976 Act codified certain important First Amendment values that courts had recognized as implicit, such as a protection for "fair use" and an express limitation of the scope of copyright to "expression" rather than "ideas." 17 U.S.C. §§ 102(b), 107. But the Act also changed dramatically the nature of the copyright term. It eliminated the fixed copyright terms and the device of renewal that had been mainstays of copyright law since 1790. In the place of fixed terms, the 1976 Act established a single term for all copyrights issued after January 1, 1978. That term was for the life of the author, plus 50 years. For "works made for hire" the term was fixed at the shorter of 100 years from creation or 75 years from publication. Finally, all subsisting copyrights were given term extensions to 75 years.

These changes had a profound effect upon the public domain. First, by eliminating the system of renewal, Congress effectively ended a natural

flow of work into the public domain before the expiration of the maximum term — copyrights no longer valuable to the author would automatically accrue to the benefit of the public. Second, the continuation of the practice of extending copyright terms ended the statutory flow of material into the public domain. In fact, except for a lapse caused by the initial failure of Congress to pass the CTEA in 1995, 1961 was the last time that a copyrighted work in its renewal term came into the public domain. That work had been originally authored in 1905.

The Copyright Term Extension Act Of 1998. On October 27, 1998, President Clinton signed into law the Sonny Bono Copyright Term Extension Act of 1998, Pub. L. No. 105-298, 112 Stat. 2827. In general, the CTEA added twenty more years to the length of most copyrights. See Pub. L. No. 105-298, § 102(b). This term extension was made retroactive; in other words, twenty years were added to the copyright term of works that had already been created as well as works created after the CTEA became law. See *id.* § 102 (b) & (d). Thus, but for the CTEA, a work copyrighted in 1923 and properly renewed would have entered the public domain on December 31, 1998, because its term of 75 years would have ended. Because of the CTEA, however, the work now will not enter the public domain until December 31, 2018.

Another excerpted history of copyright legislation, from Paul J. Heald & Suzanna Sherry, *Implied Limits on the Legislative Power: The Intellectual Property Clause as an Absolute Constraint on Congress* 2000 U. Ill. L. Rev. 1119:

"Eighteenth and nineteenth century Congresses remained cautious in enacting patent and copyright protection, keeping closely to the expressed purpose of the Clause - to "promote the Progress" of science and literature - rather than simply awarding benefits to a limited class of individuals. Indeed, Congress thought quite carefully about how much incentive was necessary to achieve the goals of the Clause: fourteen years was chosen as

the term of protection in the first patent statute because apprenticeship terms commonly lasted seven years, and the ability to train two sets of apprentices was thought a fair return for the inventor's efforts.

Three isolated exercises of congressional power are arguably to the contrary. The first copyright law provided fourteen years of protection for books, maps, and charts already printed in the United States. One might question how the grant of protection for works already created was meant to "promote the Progress of Science," but retroactive protection in the first copyright act was uniquely justified by several considerations. As noted earlier, the state of common-law protection was very unclear. The copyright act not only extended statutory protection to existing works but also extinguished any common-law rights beyond the fourteen-year term: thus authors who thought they had perpetual common-law protection were disappointed. Moreover, given that protection of various lengths of time had been provided by twelve of the thirteen states under the Articles of Confederation, the retroactive feature of the statute may have been a uniformity measure, designed to provide a standard expiration date for books, maps, and charts published before 1790. It might therefore have been an example of the Congress responding to the constitutional language authorizing it to "secure" authors their rights. Congress granted retroactive copyright protection only once more before the twentieth century. In 1831, it created a longer term of protection for new works - twenty-eight years instead of fourteen - and extended protection for existing works for the same period. This isolated incident, coming more than forty years after the first copyright act and not repeated for another seventy-seven years, is more indicative of congressional reticence than of congressional assertion of authority."

When Is Art Free?**by Gail Russell Chaddock****The Christian Science Monitor****June 11, 1998, Thursday**

Mortimer (a.k.a. Mickey) Mouse could be up for grabs by 2004, along with the first talking film, "The Jazz Singer," and the classic hit songs of Irving Berlin, Cole Porter, Hoagy Carmichael, and George and Ira Gershwin. Up next: the novels of Ernest Hemingway and William Faulkner and the poems of Carl Sandburg. All are part of a critical bulge of classic films, songs, and books about to lose copyright protection.

To copyright owners, this shift into the public domain could mean the loss of millions in revenues. To the public, it means open access to ideas that helped define the 20th century.

The last time these works teetered on the edge of the public domain, Congress extended copyright protection 19 years. Now entertainment corporations, trusts, and estates are urging Congress to add another 20 years to the term of copyright protection. Opponents say this proposal is a formula for cultural stagnation.

"If I could stop this bill by giving perpetual copyright to Mickey Mouse, I'd do it - not that they deserve it: Disney doesn't pay royalties for Pocahontas and Snow White, so why shouldn't Mickey Mouse go into the public domain?" says Dennis Karjala, a law professor at Arizona State University.

"I'm more worried about the vast run of the rest of American culture that is being tied up. There will be no additions to the public domain for 20 years if this passes. We'll have another 20 flat years where everyone has to work with what is already in the public domain. The existing cultural

base on which current authors can build simply can't grow," he adds.

Under current copyright law, musical, dramatic, audiovisual, and other works are protected 50 years after the death of the author; and 75 years if the copyright holder is a corporation. That means that the work cannot be performed, reproduced, or adapted - as in writing a screenplay from a novel - without permission from and payments to copyright owners.

The case for extending copyright protection is anchored in corporate profit. The so-called copyright industries (including television, movies, music, books, and computer software) are the nation's No. 1 exporters and contributed \$ 60 billion in foreign sales in 1996, according to the Washington-based International Intellectual Property Alliance.

In 1993, the Europeans extended copyright protection for their own works for the life of the author plus 70 years. US industry spokesmen insist that Congress match that level of protection. "As the world leader in producing copyrighted works, it would be unseemly, and just plain unthinkable, for the US to lag behind other nations in protecting its copyright industry," said Fritz Attaway, Washington general counsel for the Motion Picture Association of America (MPAA) in congressional testimony last year.

Moreover, without copyright protection, there would be no incentive for movie companies to maintain the quality of films or to aggressively market them, he added. MPAA spokesmen renewed calls to extend copyrights in testimony last month before the House Subcommittee on International Economic Policy and Trade.

The US Constitution assigns to Congress the power to provide copyright protection "for limited times" in order to promote "the progress of science and useful arts." But critics argue that the

tendency of recent legislation is to extend protection indefinitely.

"The large corporations controlling copyrights in this country would like additional revenue obtainable by limiting the public domain even more than at present, and, I suppose, would go so far as to make copyright perpetual if they possibly could," says Hayward Cirkner, president of Dover Publications Inc., Mineola, N.Y., which publishes \$ 1 editions of classic books.

What troubles opponents of copyright extension is that no witnesses at the congressional hearings last year spoke to the public interest. In letters to Congress, the Association of Research Libraries argued that the proposed legislation "affords the public virtually no benefit."

"Copyright law isn't about making sure that people have money, but making sure that society has culture. It's about creating things," says Adam Eisgrau, a spokesman for the American Library Association. "The ultimate objective is to have information out in society to do all the good it can for all the people it can," he adds.

For lawmakers, the issue boils down to keeping copyright in balance. What has been missing in the current debate over copyright extension is the case for why the great works of the 1920s and beyond should ever go into the public domain.

HEADLINE: Copyright crusader;
BYLINE: By Daren Fonda
The Boston Globe

Copyright 1999 Globe Newspaper
August 29, 1999, Sunday ,City Edition

BODY:

The day Eric Eldred decided to launch a Web site, he didn't think many people would care. He was doing it to inspire his triplet teenage daughters to read more. Emma, Anna, and Bonnie had come home from Pinkerton Academy in Derry, New Hampshire, complaining about Nathaniel Hawthorne's *The Scarlet Letter*. The three sophomores, especially Emma, were put off by the old-style language and found the book boring.

It was the spring of 1995, and Eldred, a technical analyst for a computer magazine, was looking for a hobby. "I thought to myself: 'This is a great work of literature. It's the first piece of literature teenagers are exposed to. Can I do something to get them more interested in it?'"

Eldred went on the Internet to see if there were any resources to liven up the book. Like many classics, it had been put on line by several nonprofit sites. But Eldred felt these electronic editions were inferior to their print versions; they had typos, or relied on outdated texts, or were difficult to read since they'd been scanned in crudely. He decided to create his own on-line edition, sprucing it up with a glossary, a time line, illustrations, and a biography of Hawthorne.

Then he thought, why not put other books on line, too? He envisioned a global electronic library that would make unusual and out-of-print books available for people who couldn't find them in libraries or used-book stores. His e-library would be accessible to the blind through text-to-speech generators. Getting permission from publishers wouldn't be a problem, he thought, since the works he wanted were all in the public domain, their copyrights expired.

Eldred filled his digital shelves with books that suited his tastes. There were texts on small boats, 19th-century natural histories, children's stories for parents to read aloud to kids. He published *The Life of the Caterpillar*, by amateur entomologist J. Henri Fabre, to show children that you don't need a PhD to do good science. He put up a novel called *Wooden Crosses*, by Roland Dorgeles, because he thought it was a terrific, though forgotten, World War I story. He even scanned in a book of poetry by his mother.

At first, not many people noticed the Web site: eldred.ne.mediaone.net. But as time went by, a steady flow of visitors streamed in, and the response was strong. People around the world e-mailed praise. His daily hit count grew to 20,000. In 1997, the National Endowment for the Humanities recognized his Eldritch Press as one of the 20 best humanities sites on the Web. More recognition came when both the Nathaniel Hawthorne Society and the William Dean Howells Society endorsed Internet links to his pages. To Eldred, the recognition was thrilling, and he planned an ambitious agenda, hoping to scan in rare works with copyrights that were scheduled to expire.

Then something happened that would change not only Eldred's homespun Web site, but his life as well.

On October 27, 1998, as the nation was riveted by the impeachment scandal, President Clinton quietly signed into law the Sonny Bono Copyright Term Extension Act. The lack of ceremony belied the far-reaching implications of the law, whose impact would be felt from the corporate headquarters of Disney to the back rooms of small New England publishers. The act, sponsored by the late singer-songwriter and congressman, extended protection by 20 years for cultural works copyrighted after January 1, 1923. Works copyrighted by individuals since 1978 got "life plus 70" rather than the existing "life plus 50"; works made by or for corporations, known as "works made for hire," got 95 years. Works

copyrighted before 1978 were shielded for 95 years, regardless of how they were produced.

Pop icons such as Mickey Mouse, books such as *The Great Gatsby*, films such as *The Jazz Singer*, musicals such as *Show Boat* - tens of thousands of works copyrighted under earlier laws and poised to enter the public domain - were covered until at least 2019.

The law ensured that the estates of writers and composers would continue to collect royalties from the artists' works. It was also crucial for large publishing houses and movie studios like Disney and Warner Bros., which rely on revenues from licensing their old copyrighted products. (Mickey Mouse, copyrighted in 1928 as *Steamboat Willie*, would have entered the public domain in 2004; Mickey - through Disney's consumer products division and theme parks - helped bring in \$8 billion in 1998, according to the New York investment bank Salomon Smith Barney.)

The Bono Act, however, also affected noncommercial interests like Eldred's. He could still publish *The Scarlet Letter*, but a couple of favorites were now off-limits: an out-of-print collection of stories by Sherwood Anderson, *Horses and Men*, and an edition of Robert Frost's poetry collection *New Hampshire*, the only one, Eldred claims, with the correct punctuation. Both works, published in 1923, were covered under Bono.

Many of these copyright owners had made it clear to Congress that they wanted an extension bill passed. According to the nonprofit Center for Responsive Politics, in Washington, media companies and their political action committees contributed more than \$6.5 million to members of Congress during the 1997-98 election cycle. Representative Howard Coble, a Republican from North Carolina and cosponsor of the House bill, got \$63,000 in individual and PAC donations. A Senate cosponsor, Republican Orrin Hatch of Utah, received \$50,000 from major donors,

including the seven major movie studios, the Motion Picture Association of America, and the American Society of Composers, Authors, and Publishers.

Disney was one of the biggest donors. Eight of the Senate bill's 12 sponsors received contributions from Disney, as did 10 of the original House bill's 13 sponsors. Democrat Patrick Leahy of Vermont, the ranking minority member on the Senate Judiciary Committee (which passed the bill) and a man who very publicly forgoes PAC contributions, got nearly \$20,000 from individual Disney employees. (Only Time Warner's employees contributed more. They gave Leahy \$36,000.)

Disney chairman Michael Eisner even lobbied personally. One week after he flew to Washington to meet with Senate Majority Leader Trent Lott of Mississippi, Lott signed on as a cosponsor. That day, Lott's campaign committee received a check from Disney for \$1,000, and 11 days later, Disney donated \$20,000 in unrestricted "soft money" to the National Republican Senatorial Committee.

The reason for all this lobbying was clear: Even bigger money was at risk. As the Bono bill's advocates pointed out, the nation's "copyright industries" - publishing, film, music - contributed \$280 billion to the US economy in 1996. Though most of these revenues come from recent works, old copyrights are also highly lucrative. The Rodgers and Hammerstein Organization, for instance, earns \$10 million annually in royalties and licensing fees. A nationwide license for a Gershwin song, worth between \$45,000 and \$75,000 15 years ago, now earns more than \$250,000. (George Gershwin's *Rhapsody in Blue*, copyrighted in 1924 and scheduled to enter the public domain on January 1, 2000, under the old law, became United Airlines's theme song for an estimated \$500,000.)

After the Bono law passed, Eldred wanted to act. In protest, he shut down his Web site for a few days, and he considered publishing a

copyrighted book as a form of civil disobedience. During the Vietnam War, he'd been a conscientious objector, disrupting military induction ceremonies as a member of the Boston Draft Resistance Group. But now, a family man, he wasn't keen on going to prison for the right to publish Robert Frost.

Eldred started talking up his cause. He finally managed to get a few newspaper stories written, and one of them caught the attention of Harvard Law School professor Lawrence Lessig. Lessig contacted him and asked if he'd like to challenge the law. Eldred said yes, and Lessig took the case pro bono. In January, he filed a complaint against the government on Eldred's behalf with the US District Court for the District of Columbia. The professor enlisted colleagues from Harvard's Berkman Center for Internet & Society; he got one of Boston's most prestigious firms, Hale & Dorr, to handle the technical details; and he corralled nine co-plaintiffs - including Higginson Books and the American Film Heritage Association - to add muscle to the case.

Lessig thought Eldred could make legal history. He saw Bono's impact reaching far beyond Eldred's site; public access to art works was at stake. "Our fear is that unless people appreciate the importance of the public domain, Congress will continue to enclose it," he says. As Lessig explains, if a work is in the public domain, anyone is free to perform or distribute it and create new interpretations - plays, books, movies, CD-ROMs. The result can be a cultural windfall. Disney - arguably the nation's largest user of public domain characters - creates blockbuster films from them: Pocahontas, Snow White and the Seven Dwarfs, The Hunchback of Notre Dame. A classic novel not under copyright (Heart of Darkness) can become a radically different movie (Apocalypse Now); an old story can become a musical (Jesus Christ Superstar).

Eldred and Lessig aren't disputing that creative artists should profit from their work; they believe in economic incentives. But the question is one of

scope. How much protection is reasonable as an incentive to produce? And when should a work become available to society as a whole?

Lessig has two major gripes with the Bono law. First, he says, it infringes on Eldred's freedom of speech: "The extension takes works that would have entered the public domain and privatizes them improperly; the result is like a tax on freedom of expression. Eldred can't publicly utter these words now without paying a penalty imposed by the government."

Bono also violates the Constitution, Lessig says, because it flunks the copyright clause's "incentive" requirement. Since you can't give an incentive to a corpse - and the new law extended protection retroactively, to works created by authors now dead - it fails the litmus test. "The Supreme Court has consistently said the primary purpose of copyright is not to give authors some particular benefit, but to protect the public domain," says Lessig. "Extensions can't be retroactive, because the Constitution gives Congress the right to grant exclusive rights only if those rights create incentives to produce more speech. Extending these benefits retroactively doesn't serve any purposes the copyright clause was designed for."

The law's proponents - including one of Lessig's Harvard Law School colleagues, Arthur Miller - have a different interpretation. In an *amici curiae*, or friends of the court, brief filed in June, they argue that copyrights are still limited and that Bono is consistent with past copyright extensions, which all covered preexisting works. "Congress's repeated extensions reflect a consistent congressional judgment that yesterday's works should not enjoy lesser protection than tomorrow's simply because new copyright legislation was passed today," they write. Extending copyrights to old works satisfies the Constitution's incentive requirement because heirs or corporations, even if they didn't create the original works, may use the additional income to subsidize the creation of new ones. Historically, the courts have always granted

considerable leeway to Congress when it comes to copyright issues. Why overturn precedent, when there's no reason the courts' stance should change? Eldred's complaint, they write, is no less than a "manifesto for revolution - the overthrow of more than two centuries of consistent constitutional congressional practice under the Copyright Clause."

To that, Lessig retorts: "Is there any reason to think that the great-great-grandson of some long-dead author is more likely to write if Congress gives him a subsidy than, say, go on vacation? Historically, the courts may have been lenient, but they recently signaled an important change. In all of the 19th century, Congress changed the term of copyright only once. In the first half of the 20th century, they changed it once again. In the 38 years that I have been alive, they have changed it 11 times. It's one thing when courts are deferential to a well-behaved Congress. If Congress can change so much, why shouldn't the courts?"

Eldred, for his part, thinks he'll win. And even if he doesn't, he hopes his suit will spur debate about the public domain and force media companies to reconsider their position. "Maybe they'll start protecting it," he says, "like other industries, which were once resistant, now make efforts to protect the environment." Whatever happens, he has a backup plan: creating what he calls a "copyright conservancy," a kind of intellectual property preserve with copyrighted works donated by their authors for public use. "Protecting the public domain," says Eldred, "isn't much different than protecting the environment."

**ERIC ELDRED,
ET AL.,
APPELLANTS v.
JANET RENO, IN
HER OFFICIAL
CAPACITY AS
ATTORNEY
GENERAL,
APPELLEE
No. 99-5430
UNITED
STATES COURT
OF APPEALS FOR
THE DISTRICT OF
COLUMBIA
CIRCUIT**

**239 F.3d 372;
2001
October 5, 2000,
Argued
February 16, 2001,
Decided**

SUBSEQUENT HISTORY:

[**1] As Amended February 20, 2001.

PRIOR HISTORY:

Appeal from the United States District Court for the District of Columbia. (No. 99cv00065).

DISPOSITION:

Affirmed.

JUDGES:

Before: GINSBURG, SENTELLE, and HENDERSON, Circuit Judges. Opinion for the Court filed by Circuit Judge GINSBURG. Separate opinion dissenting in part filed [**2] by Circuit Judge SENTELLE.

**OPINIONBY:
GINSBURG**

OPINION:

[*373]

GINSBURG, *Circuit Judge*: The plaintiffs in this case, corporations, associations, and individuals who rely for their vocations or avocations upon works in the public domain, challenge the constitutionality of the Copyright Term Extension Act of 1998 (CTEA), Pub. L. No. 105-298, 112 Stat. 2827. This marks the first occasion for an appellate court to address whether the First Amendment or the Copyright Clause of the Constitution of the United States constrains the Congress from extending for a period of years the duration of copyrights, both those already extant and those yet to come. We hold that neither does.

I. Background

The CTEA amends various provisions of the Copyright Act of 1976, 17 U.S.C. § 101 *et seq.* The portions of the CTEA at issue here extend the terms of all copyrights for 20 years as follows: (1) For a work created in 1978 or later, to which an individual author holds the copyright, the Act extends the term to the life of the author plus 70 years. *See* Pub L. No. 105-298 § 102(b)(1), 112 Stat. 2827; 17 U.S.C. § 302(a). (2) For a work created in 1978 [**3] or later that is anonymous, or pseudonymous, or is made for hire, the term is extended from 75 to 95 years from the year of publication or from 100 to 120 years from the year of creation, whichever occurs first. *See* Pub. L. No. 105-298 § 102(b)(3), 112 Stat. 2827; 17 U.S.C. § 302(c). (3) For a work created before 1978, for which the initial term of copyright was 28 years, the renewal term is extended from 47 to 67 years, thereby creating a combined term of 95 years. *See* Pub. L. No. 105-298 § 102(d), 112 Stat. 2827; 17 U.S.C. § 304. In all three situations, therefore, the CTEA applies retrospectively in the sense that it extends the terms of subsisting copyrights. As a result, the CTEA better aligns the terms of United States

copyrights with those of copyrights governed by the European Union. *See* S. Rep. No. 104-315, at 7-8 [*374] (1996); Council Directive 93/98, art. 7, 1993 O.J. (L 290) 9.

The CTEA is but the latest in a series of congressional extensions of the copyright term, each of which has been made applicable both prospectively and retrospectively. In 1790 the First Congress provided, both for works "already printed" and [*4] for those that would be "thereafter made and composed," initial and renewal terms of 14 years, for a combined term of 28 years. Act of May 31, 1790 § 1, 1 Stat. 124, 124. In 1831 the Congress extended the initial term to 28 years, thereby creating a combined term of 42 years. *See* Act of Feb. 3, 1831 § 1, 4 Stat. 436, 436. So the term remained until 1909, when the Congress extended the renewal term as well to 28 years, making for a combined term of 56 years. *See* Act of March 4, 1909 § 23, 35 Stat. 1075, 1080.

Between 1962 and 1974 the Congress passed a series of laws that incrementally extended subsisting copyrights. *See* Pub. L. No. 87-668, 76 Stat. 555 (1962); Pub. L. No. 89-142, 79 Stat. 581 (1965); Pub. L. No. 90-141, 81 Stat. 464 (1967); Pub. L. No. 90-416, 82 Stat. 397 (1968); Pub. L. No. 91-147, 83 Stat. 360 (1969); Pub. L. No. 91-555, 84 Stat. 1441 (1970); Pub. L. No. 92-170, 85 Stat. 490 (1971); Pub. L. No. 92-566, 86 Stat. 1181 (1972); Pub. L. No. 93-573, title I, § 104, 88 Stat. 1873 (1974). In 1976 the Congress altered the way the term of a copyright is computed so as to conform with the Berne Convention and with international practice. *See* H.R. Rep. [*5] No. 94-1476, at 135 (1976). Thenceforth the term would be the life of the author plus 50 years or, where there was no identifiable author, the earlier of 75 years from the year of publication or 100 years from the year of creation. *See* Pub. L. No. 94-553 § 302-05, 90 Stat. 2541, 2572-76 (1976). The CTEA amends this scheme by adding 20 years to the term of every copyright.

The plaintiffs filed this suit against the Attorney General of the United States to obtain a

declaration that the CTEA is unconstitutional. Among the plaintiffs are a non-profit association that distributes over the internet free electronic versions of books in the public domain; a company that reprints rare, out-of-print books that have entered the public domain; a vendor of sheet music and a choir director, who respectively sell and purchase music that is relatively inexpensive because it is in the public domain; and a company that preserves and restores old films and insofar as such works are not in the public domain, needs permission from their copyright holders -- who are often hard to find -- in order to exploit them.

The district court entered judgment on the pleadings in favor of the Government and [*6] dismissed the plaintiffs' case in its entirety. On appeal, the plaintiffs renew their claims that the CTEA both violates the First Amendment to the Constitution and is in various ways inconsistent with the Copyright Clause of Article I, § 8 of the Constitution, which authorizes the Congress: "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."

II. Analysis

The plaintiffs claim that the CTEA is beyond the power of the Congress and therefore unconstitutional for three reasons: first, the CTEA, in both its prospective and retrospective applications, fails the intermediate scrutiny appropriate under the First Amendment; second, in its application to preexisting works, the CTEA violates the originality requirement of the Copyright Clause; and third, in extending the term of subsisting copyrights, the CTEA violates the "limited Times" requirement of the Copyright Clause -- a requirement that they say is informed by the goal of "promoting the Progress of Science and useful Arts." Because each of these grounds presents a pure question of law, we consider them [*7] *de novo*. *See, e.g.,* [*375] *United States v. Popa*, 337 U.S. App. D.C. 411, 187 F.3d 672, 674 (D.C. Cir. 1999).

[The court first considered the plaintiff's claim that CTEA was barred by the First Amendment. See the following section.]

B. Requirement of Originality

The plaintiffs' second challenge ostensibly rests upon *Feist Publications, Inc. v. Rural Telephone Service Co.*, in which the Supreme Court held that telephone listings compiled in a white pages directory are uncopyrightable facts: "The *sine qua non* of copyright is originality." 499 U.S. 340, 345, 111 S. Ct. 1282, 113 L. Ed. 2d 358 (1991). "Originality is a constitutional requirement" for copyright because the terms "Authors" and "Writings," as they appear in the Copyright Clause, "presuppose a degree of originality." *Id.* at 346.

The plaintiffs reason from this that the CTEA cannot extend an extant copyright because the copyrighted work already [*377] exists and therefore lacks originality. Not so. Originality is what made the work copyrightable in the first place. A work with a subsisting copyright has already satisfied the requirement of originality and need not do so anew for its copyright to persist. If the Congress could not extend a subsisting copyright for want of originality, it is hard to see how it could provide for a copyright to be renewed [**14] at the expiration of its initial term -- a practice dating back to 1790 and not questioned even by the plaintiffs today.

The plaintiffs' underlying point seems to be that there is something special about extending a copyright beyond the combined initial and renewal terms for which it was initially slated. Nothing in *Feist* or in the requirement of originality supports this, however: All they tell us is that facts, like ideas, are outside the ambit of copyright. Undaunted in trying to advance their novel notion of originality, the plaintiffs point to cases that do not address the requirement of originality for copyright *per se*. They point to no case or commentary, however, that calls into question the distinction between a new grant of copyright -- as to which originality is an issue -- and the extension of an existing grant. That distinction reflects, at

bottom, the difference between the constitutionally delimited subject matter of copyright and the Congress's exercise of its copyright authority with respect to that subject matter.

The plaintiffs do point out that the Supreme Court has said the "Congress may not authorize the issuance of patents whose effects are to remove [**15] existent knowledge from the public domain, or to restrict free access to materials already available." *Graham v. John Deere Co.*, 383 U.S. 1, 6, 15 L. Ed. 2d 545, 86 S. Ct. 684 (1966). The Court similarly stated, over a century ago, that the issuance of a trademark could not be justified under the Copyright Clause because the subject matter of trademark is "the adoption of something already in existence." *Trade-Mark Cases*, 100 U.S. 82, 94, 25 L. Ed. 550 (1879). Applied *mutatis mutandis* to the subject of copyright, these teachings would indeed preclude the Congress from authorizing under that Clause a copyright to a work already in the public domain.

The plaintiffs read the Court's guidance more broadly, in the light of *Feist*, to mean that a work in the public domain lacks the originality required to qualify for a copyright. That is certainly not inconsistent with the Court's opinion: A work in the public domain is, by definition, without a copyright; where the grant of a copyright is at issue, so too is the work's eligibility for copyright, and thus the requirement of originality comes into play. We need not adopt a particular view on [**16] that point, however, as it has nothing to do with this case. Here we ask not whether any work is copyrightable --indeed, the relevant works are already copyrighted -- but only whether a copyright may by statute be continued in force beyond the renewal term specified by law when the copyright was first granted. For the plaintiffs to prevail, therefore, they will need something other than the requirement of originality upon which to make their stand.

C. The Limitation of "limited Times"

We come now to the plaintiffs' contention that the CTEA violates the constitutional requirement

that copyrights endure only for "limited Times." This claim at last speaks to the duration rather than to the subject matter of a copyright: If the Congress were to make copyright protection permanent, then it surely would exceed the power conferred upon it by the Copyright Clause.

The present plaintiffs want a limit well short of the rule against perpetuities, of course. And they claim to have found it -- or at least a bar to extending the life of a subsisting copyright -- in the preamble of the Copyright Clause: "The Congress shall have power ... To promote the Progress of Science and useful Arts. [**17] ..." Their idea is that the phrase "limited Times" should be interpreted not literally but rather as reaching only as far as is [**378] justified by the preambular statement of purpose: If 50 years are enough to "promote ... Progress," then a grant of 70 years is unconstitutional. Here the plaintiffs run squarely up against our holding in *Schnapper v. Foley*, 215 U.S. App. D.C. 59, 667 F.2d 102, 112 (1981), in which we rejected the argument "that the introductory language of the Copyright Clause constitutes a limit on congressional power." The plaintiffs, however, disclaim any purpose to question the holding of *Schnapper*; indeed, they expressly acknowledge "that the preamble of the Copyright Clause is not a substantive limit on Congress' legislative power." Their argument is simply that "the Supreme Court has interpreted the terms 'Authors' and 'Writings' in light of that preamble, and that this Court should do the same with 'limited Times.' "

The problems with this argument are manifest. First, one cannot concede that the preamble "is not a substantive limit" and yet maintain that it limits the permissible duration of a copyright more strictly than does the textual requirement [**18] that it be for a "limited Time." Second, although the plaintiffs claim that *Feist* supports using the preamble to interpret the rest of the Clause, the Court in *Feist* never suggests that the preamble informs its interpretation of the substantive grant of power to the Congress (which there turned upon the meaning of "Authors" and of "Writings,"

each standing alone). 499 U.S. at 345-47. Similarly, the *Trade-Mark Cases* cited in *Feist* rest upon the originality implied by "invention [and] discovery" and by the "writings of authors," and make no reference at all to the preamble. 100 U.S. at 93-94.

III. The Dissent

The foregoing suffices to dispose of plaintiffs' arguments -- as Judge Sentelle, dissenting, implicitly recognizes -- and hence to resolve this case. Our dissenting colleague nonetheless adopts the narrow view of *Schnapper* urged by an amicus, although that argument is rejected by the actual parties to this case and therefore is not properly before us. See, e.g., 16A CHARLES ALAN WRIGHT ET AL., FEDERAL PRACTICE AND PROCEDURE § 3975.1 & n.3 (3d ed. 1999); *Resident Council of Allen Parkway Vill. v. HUD*, 980 F.2d 1043, 1049 (5th Cir. 1993) [**19] (amicus constrained "by the rule that [it] generally cannot expand the scope of an appeal to implicate issues that have not been presented by the parties to the appeal"); cf. *Lamprecht v. FCC*, 294 U.S. App. D.C. 164, 958 F.2d 382, 389 (D.C. Cir. 1992) (intervenor as nonparty "cannot expand the proceedings" or "enlarge those issues presented"). This is particularly inappropriate because a court should avoid, not seek out, a constitutional issue the resolution of which is not essential to the disposition of the case before it. Moreover, because the plaintiffs conspicuously failed to adopt the argument of the amicus, the Government was not alerted to any need to argue this point and did not do so. See *Harmon v. Thornburgh*, 278 U.S. App. D.C. 382, 878 F.2d 484, 494 (D.C. Cir. 1989) (court must "avoid unnecessary or premature constitutional rulings" and this concern "is heightened by the absence of meaningful argument by the parties on [constitutional] question"); *Ashwander v. Tennessee Valley Authority*, 297 U.S. 288, 346, 80 L. Ed. 688, 56 S. Ct. 466 (1936) (Brandeis, J., concurring) ("Court will not 'anticipate a question of constitutional

[**20] law in advance of the necessity of deciding it' ").

Even were we to proceed as urged by the amicus and the dissent, however, we would only review the CTEA as we would any other exercise of a power enumerated in Article I. That is we would ask, following *McCulloch v. Maryland*, 17 U.S. 316, 421, 4 L. Ed. 579 (1819), whether the CTEA is a "necessary and proper" exercise of the power conferred upon the Congress by the Copyright Clause; assuming Judge Sentelle is correct and *Schnapper* is wrong about the relationship of the preamble to the rest of that Clause, this would require that the CTEA be an "appropriate" means, and "plainly adapted" to the end prescribed in the preamble, "promoting Progress of Science [*379] and useful Arts." The Congress found that extending the duration of copyrights on existing works would, among other things, give copyright holders an incentive to preserve older works, particularly motion pictures in need of restoration. *See* S. REP. NO. 104-315, at 12 (1996). If called upon to do so, therefore, we might well hold that the application of the CTEA to subsisting copyrights is "plainly adapted" and "appropriate" to "promoting progress." *See* [*21] *Ladd v. Law & Technology Press*, 762 F.2d 809, 812 (9th Cir. 1985) (upholding the deposit requirement of the Copyright Act of 1976 as "necessary and proper" because the purpose was "to enforce contributions of desirable books to the Library of Congress").

Judge Sentelle concludes otherwise only because he sees a categorical distinction between extending the term of a subsisting copyright and extending that of a prospective copyright. This distinction is not to be found in the Constitution itself, however. The dissent identifies nothing in text or in history that suggests that a term of years for a copyright is not a "limited Time" if it may later be extended for another "limited Time." Instead, the dissent suggests that the Congress -- or rather, many successive Congresses -- might in effect confer a perpetual copyright by stringing together an unlimited number of "limited Times,"

although that clearly is not the situation before us. The temporal thrust of the CTEA is a good deal more modest: The Act matches United States copyrights to the terms of copyrights granted by the European Union, *see* Council Directive 93/98, art. 7, 1993 O.J. (L 290) 9; in an era of multinational [*22] publishers and instantaneous electronic transmission, harmonization in this regard has obvious practical benefits for the exploitation of copyrights. This is a powerful indication that the CTEA is a "necessary and proper" measure to meet contemporary circumstances rather than a step on the way to making copyrights perpetual; the force of that evidence is hardly diminished because, as the dissent correctly points out, the EU is not bound by the Copyright Clause of our Constitution. As for the dissent's objection that extending a subsisting copyright does nothing to "promote Progress," we think that implies a rather crabbed view of progress: Preserving access to works that would otherwise disappear -- not enter the public domain but disappear -- "promotes Progress" as surely as does stimulating the creation of new works.

The position of our dissenting colleague is made all the more difficult because the First Congress made the Copyright Act of 1790 applicable to subsisting copyrights arising under the copyright laws of the several states. *See* Act of May 31, 1790, § § 1 and 3, 1 Stat. 124-25. * The construction of the Constitution "by [those] contemporary with its formation, [*23] many of whom were members of the convention which framed it, is of itself entitled to very great weight, and when it is remembered that the rights thus established have not been disputed [for this long], it is almost conclusive." *Burrow-Giles Lithographic Co. v. Sarony*, 111 U.S. 53, 57, 28 L. Ed. 349, 4 S. Ct. 279 (1884). The plaintiffs, recognizing the import of this "almost conclusive" point for their own theory, try to avoid it with the suggestion that application of the Act of 1790 to subsisting copyrights "is fully understandable under a Supremacy Clause analysis" in that it "clarified which law (state or federal) would govern those copyrights." But that will not do: A federal law is

not valid, let alone supreme, if it is not first an exercise of an enumerated power. And the First Congress was clearly secure in its power under the Copyright Clause to extend the terms of subsisting copyrights beyond those granted by the States.

* Indeed, each of the four later Congresses that extended the terms of copyrights followed suit in doing so for subsisting as well as prospective copyrights. *See* Act of Feb. 3, 1831 § 1, 4 Stat. 436-39; Act of March 4, 1909 § 23, 35 Stat. 1075-88; Pub. L. No. 94-553 § 301, 90 Stat. 2541-2602 (1976); Pub. L. No. 105-298, 112 Stat. 2827 (2000).

[**24] [*380]

Such guidance as the Supreme Court has given further confirms us in this view of the matter. The Court has made plain that the same Clause permits the Congress to amplify the terms of an existing patent. As early as 1843 it established that the status of a particular invention and its protections

must depend on the law as it stood at the emanation of the patent, together with such changes as have been since made; for though they may be retrospective in their operation, that is not a sound objection to their validity; the powers of Congress to legislate upon the subject of patents is plenary by the terms of the Constitution, and as there are no restraints on its exercise, there can be no limitation of their right to modify them at their pleasure, so that they do not take away the rights of property in existing patents.

McClurg v. Kingsland, 42 U.S. 202, 206, 11 L. Ed. 102.

Within the realm of copyright, the Court has to the present era been similarly deferential to the judgment of the Congress. "As the text of the Constitution makes plain, it is Congress that has

been assigned the task of defining the scope of the limited monopoly that should be granted [**25] to authors or to inventors in order to give the appropriate public access to their work product;" that "task involves a difficult balance between [competing interests]" as reflected in the frequent modifications of the relevant statutes. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429, 78 L. Ed. 2d 574, 104 S. Ct. 774 (1984). And still more recently: "The evolution of the duration of copyright protection tellingly illustrates the difficulties Congress faces [in exercising its copyright power].... It is not our role to alter the delicate balance Congress has labored to achieve." *Stewart v. Abend*, 495 U.S. 207, 230, 109 L. Ed. 2d 184, 110 S. Ct. 1750 (1990).

IV. Conclusion:

In sum, we hold that the CTEA is a proper exercise of the Congress's power under the Copyright Clause. The plaintiffs' first amendment objection fails because they have no cognizable first amendment interest in the copyrighted works of others. Their objection that extending the term of a subsisting copyright violates the requirement of originality misses the mark because originality is by its nature a threshold inquiry relevant to copyrightability, not a [**26] continuing concern relevant to the authority of the Congress to extend the term of a copyright.

Whatever wisdom or folly the plaintiffs may see in the particular "limited Times" for which the Congress has set the duration of copyrights, that decision is subject to judicial review only for rationality. This is no less true when the Congress modifies the term of an existing copyright than when it sets the term initially, and the plaintiffs -- as opposed to one of the amici -- do not dispute that the CTEA satisfies this standard of review. The question whether the preamble of the Copyright Clause bars the extension of subsisting copyrights -- a question to which the analysis in *Schnapper* seems to require a negative answer -- may be revisited only by the court sitting *en banc* in a future case in which a party to the litigation argues the point.

For the foregoing reasons, the decision of the district court is *Affirmed*.

SENTELLE, Circuit Judge, dissenting in part:

While I concur with much of the majority's opinion, insofar as it holds constitutional the twenty-year or more extension of copyright protection for existing works, I dissent. This issue calls upon us to consider the scope of one of the clauses granting enumerated powers to Congress, specifically, Art. I, § 8, cl. 8:

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 *381 to their respective writings and discoveries....

In ascertaining the breadth of an enumerated power, I would follow the lead of the United States Supreme Court in *United States v. Lopez*, 514 U.S. 549, 552, 115 S.Ct. 1624, 131 L.Ed.2d 626 (1995), and "start with first principles." The governing first principle in *Lopez* and in the matter before us is that "[t]he Constitution creates a Federal Government of enumerated powers." 514 U.S. at 552, 115 S.Ct. 1624 (citing Art. I, § 8). The Framers of the Constitution adopted the system of limited central government "to ensure the protection of our fundamental liberties." *Gregory v. Ashcroft*, 501 U.S. 452, 458, 111 S.Ct. 2395, 115 L.Ed.2d 410 (1991) (internal quotations and citations omitted). The *Lopez* decision, considering the validity of the so-called Gun-Free School Zones Act, reminded us that "congressional power under the Commerce Clause ... is subject to outer limits." 514 U.S. at 556-57, 115 S.Ct. 1624; see also *United States v. Morrison*, 529 U.S. 598, 120 S.Ct. 1740, 1748-49, 146 L.Ed.2d 658 (2000).

It would seem to me apparent that this concept of "outer limits" to enumerated powers applies not only to the Commerce Clause but to all the enumerated powers, including the Copyright Clause, which we consider today. In determining whether the legislation before it in such cases as *Lopez* exceeded the outer limit of the authority

granted under the Commerce Clause, the *Lopez* Court laid out a precise outline concededly not applicable by its terms to the construction of other clauses, but I think most useful in conducting the same sort of examination of the outer limits of any enumerated power. As a part of that analysis, the Court examined the extension of congressional authority to areas beyond the core of the enumerated power with a goal of determining whether the rationale offered in support of such an extension has any stopping point or whether it would lead to the regulation of all human activity. See 514 U.S. at 564, 115 S.Ct. 1624 ("Thus, if we were to accept the Government's arguments, we are hard pressed to posit any activity by an individual that Congress is without power to regulate."). I fear that the rationale offered by the government for the copyright extension, as accepted by the district court and the majority, leads to such an unlimited view of the copyright power as the Supreme Court rejected with reference to the Commerce Clause in *Lopez*.

What then do I see as the appropriate standard for limiting that power? Again, the *Lopez* decision gives us guidance as to the application of first principles to the determination of the limits of an enumerated power. Citing *Gibbons v. Ogden*, 22 U.S. (9 Wheat.) 1, 189-190, 6 L.Ed. 23 (1824), the *Lopez* Court acknowledged "that limitations on the commerce power are inherent in the very language of the Commerce Clause." 514 U.S. at 553, 115 S.Ct. 1624. Just so with the Copyright Clause. What does the clause empower the Congress to do?

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....

That clause empowers the Congress to do one thing, and one thing only. That one thing is "to promote the progress of science and useful arts." How may Congress do that? "By securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." The clause is not an open grant of

power to secure exclusive rights. It is a grant of a power to promote progress. The means by which that power is to be exercised is certainly the granting of exclusive rights--not an elastic and open-ended use of that means, but only a securing for limited times. See *Stewart v. Abend*, 495 U.S. 207, 228, 110 S.Ct. 1750, 109 L.Ed.2d 184 (1990) ("The copyright term is limited so that the public will not be permanently deprived of the fruits of an artist's labors."). The majority acknowledges that "[i]f the Congress were to make copyright protection permanent, then it *382 surely would exceed the power conferred upon it by the Copyright Clause." Maj. Op. at 377. However, there is no apparent substantive distinction between permanent protection and permanently available authority to extend originally limited protection. The Congress that can extend the protection of an existing work from 100 years to 120 years, can extend that protection from 120 years to 140; and from 140 to 200; and from 200 to 300; and in effect can accomplish precisely what the majority admits it cannot do directly. This, in my view, exceeds the proper understanding of enumerated powers reflected in the *Lopez* principle of requiring some definable stopping point.

Returning to the language of the clause itself, it is impossible that the Framers of the Constitution contemplated permanent protection, either directly obtained or attained through the guise of progressive extension of existing copyrights. The power granted by the clause again is the power "to promote the progress of science and useful arts." As stated above, Congress is empowered to accomplish this by securing for limited times exclusive rights. Extending existing copyrights is not promoting useful arts, nor is it securing exclusivity for a limited time.

The government has offered no tenable theory as to how retrospective extension can promote the useful arts. As the Supreme Court noted in *Lopez* and again in *United States v. Morrison*, that Congress concluded a given piece

of legislation serves a constitutional purpose "does not necessarily make it so." *Lopez*, 514 U.S. at 557 n. 2, 115 S.Ct. 1624 (internal quotes omitted); *Morrison*, 120 S.Ct. at 1752. Pressed at oral argument, counsel for the government referred to keeping the promise made in the original grant of exclusivity for a limited time. The easy answer to this assertion is that Congress is not empowered to "make or keep promises" but only to do those things enumerated in Article I. The second problem with the government's assertion is that Congress made no promise to commit such an extension but only to secure the exclusive rights for the original limited period. Thirdly, the means employed by Congress here are not the securing of the exclusive rights for a limited period, but rather are a different animal altogether: the extension of exclusivity previously secured. This is not within the means authorized by the Copyright Clause, and it is not constitutional.

The majority responds to this problem of the statute's exceeding the constitutional grant by reliance on *Schnapper v. Foley*, 667 F.2d 102 (D.C.Cir.1981), "in which we rejected the argument 'that the introductory language of the Copyright Clause constitutes a limit on congressional power.'" Maj. Op. at 378 (quoting 667 F.2d at 112). I will concede that it does not matter if I disagree with the language of *Schnapper* (which in fact I do) as it is our Circuit precedent and we are bound by its holding unless and until that holding is changed by this court en banc or by the higher authority of the Supreme Court. See, e.g., *LaShawn A. v. Barry*, 87 F.3d 1389, 1395 (D.C.Cir.1996) (en banc) ("One three-judge panel ... does not have the authority to overrule another three judge panel of the court. That power may be exercised only by the full court." (citations omitted)); *United States v. Kolter*, 71 F.3d 425, 431 (D.C.Cir.1995) ("This panel would be bound by [a prior] decision even if we did not agree with it.").

Therefore, it is immaterial that the prior opinion is, in my view, erroneous in styling the

granting clause of the sentence as merely introductory when in fact it is the definition of the power bestowed by that clause. Thus, unless and until this precedent is wiped away, if Schnapper has held that we may not look to the language of this phrase to determine the limitations of the clause then I must concede that we are bound by that holding and join the majority's result. However, it does not appear to me that this is the holding of Schnapper. The Schnapper Court dealt with limited questions related to the application of the copyright laws to works commissioned by the U.S. government. In answering those *383 questions, the Schnapper Court held that "Congress need not 'require that each copyrighted work be shown to promote the useful arts.' " 667 F.2d at 112 (quoting *Mitchell Bros. Film Group v. Cinema Adult Theater*, 604 F.2d 852, 860 (5th Cir.1979)). It was in that context that the Schnapper Court employed the wording relied upon by the majority concerning the "introductory language" of the Copyright Clause. Insofar as that wording is taken to be anything more than the determination concerning that limited analysis, it is not a holding but simply dicta (perhaps obiter dicta) and not binding on future panels.

Rather, the Schnapper analysis again takes us back to the *Lopez* approach to judicial interpretation of the enumerated powers clauses. In *Lopez*, one of the means employed to determine the constitutionality of extended application of the Commerce Clause is an elemental inquiry into whether in each case the purportedly regulated action "in question affects interstate commerce." 514 U.S. at 561, 115 S.Ct. 1624. However, the jurisdictional element is not necessary under *Lopez* analysis of Commerce Clause regulation where Congress is directly regulating "the use of the channels of interstate commerce" or "persons or things in interstate commerce." *Id.* at 558, 115 S.Ct. 1624. Similarly, I suggest that in analyzing the extent of congressional power under the Copyright Clause, the Schnapper holding that each individual application of copyright protection need not promote the progress of science and the useful

arts does not mean that Congress's power is otherwise unlimited, anymore than the lack of a necessity for case-by-case analysis of the effect on interstate commerce validates anything Congress may wish to do under the rubric of the Commerce Clause. Though, under Schnapper, we may not require that each use of a copyright protection promote science and the arts, we can require that the exercise of power under which those applications occur meet the language of the clause which grants the Congress the power to enact the statute in the first place. This the extension does not do. It is not within the enumerated power.

The majority suggests that my reading of Schnapper is somehow foreclosed by the fact that it accepts the argument of an amicus. See *Maj. Op.* at 378 (citing 16A CHARLES ALAN WRIGHT ET AL., *FEDERAL PRACTICE AND PROCEDURE* § 3975.1 & n.3 (3d ed.1999); *Resident Council of Allen Parkway Vill. v. HUD*, 980 F.2d 1043, 1049 (5th Cir.1993)). The disposition I suggest would offend nothing in either Professor Wright's treatise or the cases aligned with it. Neither I nor the amicus raise any issue not raised by the parties to the case, nor disposed of by a majority of the court. Appellants raise the issue "whether ... the Copyright Clause of the Constitution of the United States constrains the Congress from extending for a period of years the duration of copyrights, both those already extant and those yet to come." *Maj. Op.* at 373 (emphasis added). The majority addresses that issue and holds against the appellant. *Maj. Op.* at 380 ("we hold that the CTEA is a proper exercise of the Congress's power under the Copyright Clause"). That the amicus argues more convincingly in appellants' favor on the issue raised by the appellants than they do themselves is no reason to reject the argument of the amicus. Indeed, our Circuit Rules provide that an amicus brief "must avoid repetition of facts or legal arguments made in the principal (appellant/petitioner or appellee/respondent) brief and focus on points not made or adequately

elaborated upon in the principal brief, although relevant to the issues before this court." Circuit Rule 29. Obviously that is precisely what the amicus has done in this case.

Resident Council of Allen Parkway Village, relied on by the majority, highlights this difference between introducing issues not raised by the parties on the one hand and making new arguments for issues otherwise properly raised on the other. As the Fifth Circuit noted in that case, "[w]e are constrained only by the rule that an *384 amicus curiae generally cannot expand the scope of an appeal to implicate issues that have not been presented by the parties to the appeal." 980 F.2d at 1049 (emphasis added).

Our Circuit Rule and the Fifth Circuit are in good company in allowing amici to make additional arguments that address issues which the parties have raised but not argued in the same fashion. The Supreme Court has approved precisely that approach. In *Teague v. Lane*, 489 U.S. 288, 109 S.Ct. 1060, 103 L.Ed.2d 334 (1989), that Court considered a question of retroactivity as to a fair cross section jury venire in a case also raising a claim under *Batson v. Kentucky*, 476 U.S. 79, 106 S.Ct. 1712, 90 L.Ed.2d 69 (1986). The Court noted that "[t]he question of retroactivity with regard to petitioner's fair cross section claim has been raised only in an amicus brief." 489 U.S. at 300, 109 S.Ct. 1060. Noting that the "question is not foreign to the parties, who have addressed retroactivity with respect to petitioner's *Batson* claim," *id.*, the Court proceeded to address the merits of the argument.

Nor are we constrained by the parties' apparent agreement as to the state of the law under *Schnapper*. The Supreme Court has made it clear that we cannot be bound by stipulations of law between the parties, where there is "a real case and controversy extending to that issue." *United States Nat'l Bank of Or. v. Indep. Ins. Agents of Am., Inc.*, 508 U.S. 439, 446, 113 S.Ct. 2173, 124 L.Ed.2d 402 (1993). As the High Court

put it, " '[w]hen an issue or claim is properly before the court, the court is not limited to the particular legal theories advanced by the parties, but rather retains the independent power to identify and apply the proper construction of governing law.' " *Id.* (quoting *Kamen v. Kemper Fin. Servs., Inc.*, 500 U.S. 90, 99, 111 S.Ct. 1711, 114 L.Ed.2d 152 (1991)).

I find two other arguments the majority invokes against my dissent unpersuasive. The enactment by the first Congress in 1790 regularizing the state of copyright law with respect to works protected by state acts preexisting the Constitution appears to me to be *sui generis*. Necessarily, something had to be done to begin the operation of federal law under the new federal Constitution. The Act of May 31, 1790, 1 Stat. 124, created the first (and for many decades only) federal copyright protection; it did not extend subsisting federal copyrights enacted pursuant to the Constitution. Cf. *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591, 661, 8 L.Ed. 1055 (1834) ("Congress, then, by this [copyright] act, instead of sanctioning an existing right, as contended for, created it."). The fact that the CTEA "matches United States copyrights to the terms of copyrights granted by the European Union," *Maj. Op.* at 379 (citing Council Directive 93/98, art. 7, 1993 O.J. (L 290) 9), is immaterial to the question. Neither the European Union nor its constituent nation states are bound by the Constitution of the United States. That Union may have all sorts of laws about copyrights or any other subject which are beyond the power of our constitutionally defined central government.

Therefore, I respectfully dissent

“The Wind Done Gone”

April 30, 2001

c. New York Times

Let the Stories Go

By LAWRENCE LESSIG

STANFORD, Calif. — When Margaret Mitchell published "Gone With the Wind" in 1936, the law gave her a copyright for up to 56 years. Under that agreement, the book should have fallen into the public domain in 1993. Why, then, was Mitchell's copyright, now owned by her estate, still powerful enough to prevent the planned publication this month of Alice Randall's "The Wind Done Gone," a retelling of the story of 19th-century Southern plantation life from an African-American viewpoint?

Following what has become a pattern, Congress had extended Mitchell's copyright — along with many others. Indeed, Congress has extended the term of existing copyrights 11 times in the past 40 years. Since the federal court decided that Ms. Randall's book derives from Mitchell's novel, the earliest publication date for the Randall book is now 2032 (unless Congress extends the term of copyrights again).

Can Congress really extend copyrights beyond the terms originally granted? The answer should be no. The Constitution gives Congress the power to hand out monopolies over speech for "limited times." The first copyright act, in 1790, gave authors 14 years. Under the current law, the term is the life of the author — plus 70 years. This expansion written into law in 1998 is largely the product of eager lobbyists. Disney and other companies have convinced Congress to ignore the framers' intent and push the term of copyright as long as possible.

So far, the courts have permitted this unrestrained distortion. But the case of "The Wind Done Gone" shows precisely why our

framers got the balance right. "Gone With the Wind" is an important part of our cultural heritage; its characters, quotations from its text and its picture of the old South are familiar to almost everyone. At some point, every story — and certainly one like this — should be free for others to use and criticize.

Instead of setting a fixed and relatively short term, the current system makes the right to base a story on Mitchell's novel turn on whether a lawyer can convince a judge that there is sufficient difference. The new story may use the same ideas, but may not make too much use of the same characters. It may follow some of the plot line, but not the whole pattern. The rule is a mess of jargon and confusion that will only stifle the opportunity to build upon, and sometimes criticize, our cultural heritage.

A much simpler solution to such conflicts would be to follow the framers' design. When the Constitution says "limited times," it means limited. The limited copyright for "Gone with the Wind" expired in 1992. Mitchell's story, which she and her estate have made millions retelling, should now be "as free as the air," as Justice Louis Brandeis wrote in a 1918 case, for anyone, including Ms. Randall, to remake and retell.

Lawrence Lessig is professor of law at Stanford and author of the forthcoming "The Future of Ideas."

Intellectual Property & the Constitution
Case Study #2. The 1st & 5th Amendments

107 S.Ct. 2971
97 L.Ed.2d 427, 55 USLW 5061,
3 U.S.P.Q.2d 1145
(Cite as: 483 U.S. 522, 107 S.Ct. 2971)

**SAN FRANCISCO ARTS & ATHLETICS,
INC. and Thomas F. Waddell, Petitioners
v.
UNITED STATES OLYMPIC COMMITTEE
and International Olympic Committee.**

No. 86-270.

Supreme Court of the United States

Argued March 24, 1987.

Decided June 25, 1987.

Justice POWELL delivered the opinion of the Court.

In this case, we consider the scope and constitutionality of a provision of the Amateur Sports Act of 1978, 36 U.S.C. §§ 371-396, that authorizes the United States Olympic Committee to prohibit certain commercial and promotional uses of the word "Olympic."

Petitioner San Francisco Arts & Athletics, Inc. (SFAA), is a nonprofit California corporation. [FN1] The SFAA originally sought to incorporate under the name "Golden Gate Olympic Association," but was told by the California Department of Corporations that the word "Olympic" could not appear in a corporate title. App. 95. After its incorporation in 1981, the SFAA nevertheless began to promote the "Gay Olympic Games," using those words on its letterheads and mailings and in local newspapers. Ibid. The games were to be a 9-day event to begin in August 1982, in San Francisco, California. The SFAA expected athletes from hundreds of cities in this country and from cities all over the world. Id., at 402. The Games were to open with a ceremony "which will rival the traditional Olympic Games." Id., at 354. See id., at 402, 406, 425. A relay of over 2,000 runners would

carry a torch from New York City across the country to Kezar Stadium in San Francisco. Id., at 98, 355, 357, 432. The final runner would enter the stadium with the "Gay Olympic Torch" and light the "Gay Olympic Flame." Id., at 357. The ceremony would continue with the athletes marching in uniform into the stadium behind their respective city flags. Id., at 354, 357, 402, 404, 414. Competition was to occur in 18 different contests, with the winners receiving gold, silver, and bronze medals. Id., at 354-355, 359, 407, 410. To cover the cost of the planned Games, the SFAA sold T-shirts, buttons, bumper stickers, and other merchandise bearing the title "Gay Olympic Games." Id., at 67, 94, 107, 113-114, 167, 360, 362, 427-428. [FN2]

FN1. The SFAA's president, Dr. Thomas F. Waddell, is also a petitioner.

FN2. The 1982 athletic event ultimately was held under the name "Gay Games I." App. 473. A total of 1,300 men and women from 12 countries, 27 States, and 179 cities participated. Id., at 475. The "Gay Games II" were held in 1986 with approximately 3,400 athletes participating from 17 countries. Brief for Respondents 8. The 1990 "Gay Games" are scheduled to occur in Vancouver, B.C. Ibid.

*526 Section 110 of the Amateur Sports Act (Act), 92 Stat. 3048, 36 U.S.C. § 380, grants respondent United States Olympic Committee (USOC) [FN3] the right to prohibit certain commercial and promotional uses of the word "Olympic" and various Olympic symbols. [FN4] In late December 1981, the executive *527 **2976 director of the USOC wrote to the SFAA, informing it of the existence of the

Amateur Sports Act, and requesting that the SFAA immediately terminate use of the word "Olympic" in its description of the planned Games. The SFAA at first agreed to substitute the word "Athletic" for the word "Olympic," but, one month later, resumed use of the term. The USOC became aware that the SFAA was still advertising its Games as "Olympic" through a newspaper article in May 1982. In August, the USOC brought suit in the Federal District Court for the Northern District of California to enjoin the SFAA's use of the word "Olympic." The District Court granted a temporary restraining order and then a preliminary injunction. The Court of Appeals for the Ninth Circuit affirmed. After further proceedings, the District Court granted the USOC summary judgment and a permanent injunction.

FN3. The International Olympic Committee is also a respondent.

FN4. Section 110 of the Act, as set forth in 36 U.S.C. § 380, provides:

"Without the consent of the [USOC], any person who uses for the purpose of

trade, to induce the sale of any goods or services, or to promote any theatrical exhibition, athletic performance, or competition--

"(1) the symbol of the International Olympic Committee, consisting of 5 interlocking rings;

"(2) the emblem of the [USOC], consisting of an escutcheon having a blue chief and vertically extending red and white bars on the base with 5 interlocking rings displayed on the chief;

"(3) any trademark, trade name, sign, symbol, or insignia falsely representing association with, or authorization by, the International Olympic Committee or the [USOC]; or

"(4) the words 'Olympic', 'Olympiad', 'Citius Altius Fortius', or any combination or simulation thereof tending to cause confusion, to cause mistake, to deceive, or to falsely

suggest a connection with the [USOC] or any Olympic activity;

"shall be subject to suit in a civil action by the [USOC] for the remedies provided in the Act of July 5, 1946 (60 Stat. 427; popularly known as the Trademark Act of 1946 [Lanham Act]) [15 U.S.C. § 1051 et seq.]

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The Court of Appeals affirmed the judgment of the District Court. 781 F.2d 733 (1986). It found that the Act granted the USOC exclusive use of the word "Olympic" without requiring the USOC to prove that the unauthorized use was confusing and without regard to the defenses available to an entity sued for a trademark violation under the Lanham Act, 60 Stat. 427, as amended, 15 U.S.C. § 1051 et seq. It did not reach the SFAA's contention that the USOC enforced its rights in a discriminatory manner, because the court found that the USOC is not a state actor bound by the constraints of the Constitution. The court also found that the USOC's "property righ[t] [in the word 'Olympic' and its associated *528 symbols and slogans] can be protected without violating the First Amendment." 781 F.2d, at 737. The court denied the SFAA's petition for rehearing en banc. Three judges dissented, finding that the panel's interpretation of the Act raised serious First Amendment issues. 789 F.2d 1319, 1326 (1986).

We granted certiorari, 479 U.S. 913, 107 S.Ct. 312, 93 L.Ed.2d 286 (1986), to review the issues of statutory and constitutional interpretation decided by the Court of Appeals. We now affirm.

*531 III

This Court has recognized that "[n]ational protection of trademarks is desirable ... because trademarks foster competition and the maintenance of quality by securing to the producer the benefits of good reputation."

[3][4][5] The protection granted to the USOC's use of the Olympic words and symbols differs from the normal trademark protection in two respects: the USOC need not prove that a contested use is likely to cause confusion, and an unauthorized user of the word does not have available the normal statutory defenses. [FN6] The SFAA argues, in effect, that the differences between the Lanham Act and § 110 are of constitutional dimension. First, the SFAA contends that the word "Olympic" is a generic [FN7] word that could not gain trademark protection under the Lanham Act. The SFAA argues that this ***532** prohibition is constitutionally required and thus that the First Amendment prohibits Congress from granting a trademark in the word "Olympic." Second, the SFAA argues that the First Amendment prohibits Congress from granting exclusive use of a word absent a requirement that the authorized user prove that an unauthorized use is likely to cause confusion. We address these contentions in turn.

FN6. The user may, however, raise traditional equitable defenses, such as laches. See Brief for Respondents 20, n. 17.

FN7. A common descriptive name of a product or service is generic. Because a generic name by definition does not distinguish the identity of a particular product, it cannot be registered as a trademark under the Lanham Act. See §§ 2, 14(c), 15 U.S.C. §§ 1052, 1064(c). See also 1 J. McCarthy, Trademarks and Unfair Competition § 12:1, p. 520 (1984).

A

This Court has recognized that words are not always fungible, and that the suppression of particular words "run[s] a substantial risk of suppressing ideas in the process." *Cohen v. California*, 403 U.S. 15, 26, 91 S.Ct. 1780, 1788, 29 L.Ed.2d 284 (1971). The SFAA argues that this principle ****2979** prohibits Congress from granting the USOC exclusive

control of uses of the word "Olympic," a word that the SFAA views as generic. [FN8] Yet this recognition always has been balanced against the principle that when a word acquires value "as the result of organization and the expenditure of labor, skill, and money" by an entity, that entity constitutionally may obtain a limited property right in the word. *International News Service v. Associated Press*, 248 U.S. 215, 239, 39 S.Ct. 68, 72, 63 L.Ed. 211 (1918). See *Trade-Mark Cases*, 100 U.S. (10 Otto) 82, 92, 25 L.Ed. 550 (1879).

FN8. This grant by statute of exclusive use of distinctive words and symbols by Congress is not unique. Violation of some of these statutes may result in criminal penalties. See, e.g., 18 U.S.C. § 705 (veterans' organizations); § 706 (American National Red Cross); § 707 (4-H Club); § 711 ("Smokey Bear"); § 711a ("Woodsy Owl"). See also *FTC v. A.P.W. Paper Co.*, 328 U.S. 193, 66 S.Ct. 932, 90 L.Ed. 1165 (1946) (reviewing application of Red Cross statute). Others, like the USOC statute, provide for civil enforcement. See, e.g., 36 U.S.C. § 18c (Daughters of the American Revolution); § 27 (Boy Scouts); § 36 (Girl Scouts); § 1086 (Little League Baseball); § 3305 (1982 ed., Supp. III) (American National Theater and Academy).

[6] There is no need in this case to decide whether Congress ever could grant a private entity exclusive use of a generic word. Congress reasonably could conclude that the commercial ***533** and promotional value of the word "Olympic" was the product of the USOC's "own talents and energy, the end result of much time, effort, and expense." *Zacchini v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562, 575, 97 S.Ct. 2849, 2857, 53 L.Ed.2d 965 (1977). The USOC, together with respondent International Olympic Committee (IOC), have used the word "Olympic" at least since 1896, when the modern Olympic Games began. App. 348. Baron Pierre de Coubertin of France, acting pursuant to a government commission, then proposed the

revival of the ancient Olympic Games to promote international understanding. D. Chester, *The Olympic Games Handbook* 13 (1975). De Coubertin sought to identify the "spirit" of the ancient Olympic Games that had been corrupted by the influence of money and politics. See M. Finley & H. Pleket, *The Olympic Games: The First Thousand Years* 4 (1976). [FN9] De Coubertin thus formed the IOC, that has established elaborate rules and procedures for the conduct of the modern Olympics. See Olympic Charter, Rules 26-69 (1985). In addition, these rules direct every national committee to protect the use of the Olympic flag, symbol, flame, and motto from unauthorized use. *Id.*, Bye-laws to Rules 6 and 53. [FN10] Under the IOC *534 Charter, the USOC is the national olympic committee for the United States with the sole authority to represent **2980 the United States at the Olympic Games. [FN11] Pursuant to this authority, the USOC has used the Olympic words and symbols extensively in this country to fulfill its object under the Olympic Charter of "ensur[ing] the development and safeguarding of the Olympic Movement and sport." *Id.*, Rule 24.

[7] The history of the origins and associations of the word "Olympic" demonstrates the meritlessness of the SFAA's contention that Congress simply plucked a generic word out of the English vocabulary and granted its exclusive use to the USOC. Congress reasonably could find that since 1896, the word "Olympic" has acquired what in trademark law is known as a secondary meaning-- it "has become distinctive of [the USOC's] goods in commerce." Lanham Act, § 2(f), 15 U.S.C. § 1052(f). See *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S., at 194, 105 S.Ct., at 661. The right to adopt and use such a word "to distinguish the goods or property [of] the person whose mark it is, to the exclusion of use by all other persons, has been long recognized." Trade-Mark Cases, *supra*, 100 U.S. (10

Otto), at 92. Because Congress reasonably could conclude that the USOC has distinguished the word "Olympic" through its own efforts, Congress' decision to grant the USOC a limited property right in the word "Olympic" falls *535 within the scope of trademark law protections, and thus certainly within constitutional bounds.

B

[8] Congress also acted reasonably when it concluded that the USOC should not be required to prove that an unauthorized use of the word "Olympic" is likely to confuse the public. [FN12] To the extent that § 110 applies to uses "for the purpose of trade [or] to induce the sale of any goods or services," 36 U.S.C. § 380(a), its application is to commercial speech. Commercial speech "receives a limited form of First Amendment protection." *Posadas de Puerto Rico Assoc. v. Tourism Company of Puerto Rico*, 478 U.S. 328, 340, 106 S.Ct. 2968, 2976, 92 L.Ed.2d 266 (1986); *Central Hudson Gas & Electric Corp. v. Public Service Comm'n of New York*, 447 U.S. 557, 562-563, 100 S.Ct. 2343, 2349-2350, 65 L.Ed.2d 341 (1980). Section 110 also allows the USOC to prohibit the use of "Olympic" for promotion of theatrical and athletic events. Although many of these promotional uses will be commercial speech, some uses may go beyond the "strictly business" context. See *Friedman v. Rogers*, 440 U.S. 1, 11, 99 S.Ct. 887, 895, 59 L.Ed.2d 100 (1979). In this case, the SFAA claims that its use of the word "Olympic" was intended to convey a political statement about the status of homosexuals in society. [FN13] Thus, the SFAA claims that in this case § 110 suppresses political speech.

FN12. To the extent that § 110 regulates confusing uses, it is

withinnormal trademark bounds. The Government constitutionally may regulate "deceptive or misleading" commercial speech. *Virginia Pharmacy Bd. v. Virginia Citizens Consumer Council, Inc.*, 425 U.S. 748, 771, 96 S.Ct. 1817, 1830, 48 L.Ed.2d 346 (1976); *Friedman v. Rogers*, 440 U.S. 1, 9-10, 99 S.Ct. 887, 893-894, 59 L.Ed.2d 100 (1979).

FN13. According to the SFAA's president, the Gay Olympic Games would have offered three "very important opportunities":

"1) To provide a healthy recreational alternative to a suppressed minority.

"2) To educate the public at large towards a more reasonable characterization of gay men and women.

"3) To attempt, through athletics, to bring about a positive and gradual assimilation of gay men and women, as well as gays and non-gays, and to diminish the ageist, sexist and racist divisiveness existing in all communities regardless of sexual orientation." App. 93.

His expectations "were that people of all persuasions would be drawn to the event because of its Olympic format and that its nature of 'serious fun' would create a climate of friendship and co-operation[;] false images and misconceptions about gay people would decline as a result of a participatory [sic] educational process, and benefit ALL communities." *Id.*, at 93-94. He thought "[t]he term 'Olympic' best describe[d] [the SFAA's] undertaking" because it embodied the concepts of "peace, friendship and positive social interaction." *Id.*, at 99.

***536 [9] **2981** By prohibiting the use of one word for particular purposes, neither Congress nor the USOC has prohibited the SFAA from conveying its message. The SFAA held its athletic event in its planned

format under the names "Gay Games I" and "Gay Games II" in 1982 and 1986, respectively. See n. 2, *supra*. Nor is it clear that § 110 restricts purely expressive uses of the word "Olympic." [FN14] Section 110 restricts only the manner in which the SFAA may convey its message. The restrictions on expressive speech properly are characterized as incidental to the primary congressional purpose of encouraging and rewarding the USOC's activities. [FN15] The appropriate ***537** inquiry is thus whether the incidental restrictions on First Amendment freedoms are greater than necessary to further a substantial governmental interest. *United States v. O'Brien*, 391 U.S. 367, 377, 88 S.Ct. 1673, 1679, 20 L.Ed.2d 672 (1968). [FN16]

FN14. One court has found that § 110 does not prohibit the use of the Olympic logo of five interlocking rings and the Olympic torch on a poster expressing opposition to the planned conversion of the Olympic Village at Lake Placid, New York, into a prison. The court found that the use of the symbols did not fit the commercial or promotional definition of uses in § 110. *Stop the Olympic Prison v. United States Olympic Committee*, 489 F.Supp. 1112, 1118-1121 (SDNY 1980).

FN15. Justice BRENNAN finds the Act unconstitutionally overbroad. But on its face, it applies primarily to commercial speech, to which the application of the overbreadth doctrine is highly questionable. See *Ohralik v. Ohio State Bar Assn.*, 436 U.S. 447, 462, n. 20, 98 S.Ct. 1912, 1921, n. 20, 56 L.Ed.2d 444 (1978) (citing *Bates v. State Bar of Arizona*, 433 U.S. 350, 380, 97 S.Ct. 2691, 2707, 53 L.Ed.2d 810 (1977)). There is no basis in the record to believe that the Act will be interpreted or applied to infringe significantly on noncommercial speech rights. The application of the Act to the SFAA is well within constitutional bounds, and the extent to which the

Act may be read to apply to noncommercial speech is limited. We find no "realistic danger that the statute itself will significantly compromise recognized First Amendment protections of parties not before the Court." *City Council of Los Angeles v. Taxpayers for Vincent*, 466 U.S. 789, 801, 104 S.Ct. 2118, 2126, 80 L.Ed.2d 772 (1984). Accordingly, we decline to apply the overbreadth doctrine to this case.

FN16. A restriction on nonmisleading commercial speech may be justified if the government's interest in the restriction is substantial, directly advances the government's asserted interest, and is no more extensive than necessary to serve the interest. *Central Hudson Gas & Electric Corp. v. Public Service Comm'n of New York*, 447 U.S. 557, 566, 100 S.Ct. 2343, 2351, 65 L.Ed.2d 341 (1980). Both this test and the test for a time, place, or manner restriction under *O'Brien* require a balance between the governmental interest and the magnitude of the speech restriction. Because their application to these facts is substantially similar, they will be discussed together.

One reason for Congress to grant the USOC exclusive control of the word "Olympic," as with other trademarks, is to ensure that the USOC receives the benefit of its own efforts so that the USOC will have an incentive to continue to produce a "quality product," that, in turn, benefits the public. See 1 J. McCarthy, *Trademarks and Unfair Competition* § 2:1, pp. 44-47 (1984). But in the special circumstance of the USOC, Congress has a broader public interest in promoting, through the activities of the USOC, the participation of amateur athletes from the United States in "the great four-yearly sport festival, the Olympic Games." Olympic Charter, Rule 1 (1985). The USOC's goal under the Olympic Charter, Rule 24(B), is to further the Olympic movement, that has as its aims: "to promote

the development of those physical and moral qualities which are the basis of sport"; "to educate young people through sport in a spirit of better understanding between each other and of friendship, thereby helping to build a better and more peaceful world"; and "to spread the Olympic principles throughout the world, thereby creating international goodwill." *Id.*, Rule 1. See also *id.*, Rule 11 (aims of the IOC). Congress' interests in promoting the USOC's activities include these purposes as well as those *538 specifically enumerated in **2982 the USOC's charter. [FN17] Section 110 directly advances these governmental interests by supplying the USOC with the means to raise money to support *539 the Olympics and encourages the USOC's activities by ensuring that it will receive the benefits of its efforts.

[10] The restrictions of § 110 are not broader than Congress reasonably could have determined to be necessary to further these interests. Section 110 primarily applies to all uses of the word "Olympic" to induce the sale of goods or services. Although the Lanham Act protects only against confusing uses, Congress' judgment respecting a certain word is not so limited. Congress reasonably could conclude that most commercial uses of the Olympic words and symbols are likely to be confusing. It also could determine that unauthorized uses, even if not confusing, nevertheless may harm the USOC by lessening the distinctiveness and thus the commercial value of the marks. See Schechter, *The Rational Basis of Trademark Protection*, 40 Harv.L.Rev. 813, 825 (1927) (one injury to a trademark owner may be "the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name" by nonconfusing uses).

[11] In this case, the SFAA sought to sell T-shirts, buttons, bumper stickers,

and other items, all emblazoned with the title "Gay Olympic Games." The possibility for confusion as to sponsorship is obvious. Moreover, it is clear that the SFAA sought to exploit the "commercial magnetism," see *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205, 62 S.Ct. 1022, 1024, 86 L.Ed. 1381 (1942), of the word given value by the USOC. There is no question that this unauthorized use could undercut the USOC's efforts to use, and sell the right to use, the word in the future, since much of the word's value comes from its limited use. Such an adverse effect on the USOC's activities is ****2983** directly contrary to Congress' interest. ***540** Even though this protection may exceed the traditional rights of a trademark owner in certain circumstances, the application of the Act to this commercial speech is not broader than necessary to protect the legitimate congressional interest and therefore does not violate the First Amendment.

[12][13] Section 110 also extends to promotional uses of the word "Olympic," even if the promotion is not to induce the sale of goods. Under § 110, the USOC may prohibit purely promotional uses of the word only when the promotion relates to an athletic or theatrical event. The USOC created the value of the word by using it in connection with an athletic event. Congress reasonably could find that use of the word by other entities to promote an athletic event would directly impinge on the USOC's legitimate right of exclusive use. The SFAA's proposed use of the word is an excellent example. The "Gay Olympic Games" were to take place over a 9-day period and were to be held in different locations around the world. They were to include a torch relay, a parade with uniformed athletes of both sexes divided by city, an

"Olympic anthem" and "Olympic Committee," and the award of gold, silver, and bronze medals, and were advertised under a logo of three overlapping rings. All of these features directly parallel the modern-day Olympics, not the Olympic Games that occurred in ancient Greece. [FN18] The image the SFAA ***541** sought to invoke was exactly the image carefully cultivated by the USOC. The SFAA's expressive use of the word cannot be divorced from the value the USOC's efforts have given to it. The mere fact that the SFAA claims an expressive, as opposed to a purely commercial, purpose does not give it a First Amendment right to "appropriat[e] to itself the harvest of those who have sown." *International News Service v. Associated Press*, 248 U.S., at 239-240, 39 S.Ct., at 72. [FN19] The USOC's right to prohibit use of the word "Olympic" in the promotion of athletic events is at the core of its legitimate property right. [FN20]

FN19. The SFAA claims a superior right to the use of the word "Olympic" because it is a nonprofit corporation and its athletic event was not organized for the primary purpose of commercial gain. But when the question is the scope of a legitimate property right in a word, the SFAA's distinction is inapposite. As this Court has noted in the analogous context of "fair use" under the Copyright Act:

"The crux of the profit/nonprofit distinction is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the [protected] material without paying the customary price." *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 562, 105 S.Ct. 2218, 2231, 85 L.Ed.2d 588 (1985).

Here, the SFAA's proposed use of the word "Olympic" was a clear attempt to

exploit the imagery and goodwill created by the USOC.

FN20. Although a theatrical production is not as closely related to the primary use of the word by the USOC as is an athletic event, Congress reasonably could have found that when the word "Olympic" is used to promote such a production, it would implicate the value given to the word by the USOC.

***542 **2984 IV**

[14] The SFAA argues that even if the exclusive use granted by § 110 does not violate the First Amendment, the USOC's enforcement of that right is discriminatory in violation of the Fifth Amendment. [FN21] The fundamental inquiry is whether the USOC is a governmental actor to whom the prohibitions of the Constitution apply. [FN22] The USOC is a "private corporation*543 established under Federal law." 36 U.S.C. § 1101(46). [FN23] In the Act, Congress granted the USOC a corporate charter, § 371, imposed certain requirements on the USOC, [FN24] and provided for some USOC funding through exclusive use of the Olympic words and symbols, § 380, and through direct grants. [FN25]

FN21. The SFAA invokes the Fourteenth Amendment for its discriminatory enforcement claim. The Fourteenth Amendment applies to actions by a State. The claimed association in this case is between the USOC and the Federal Government. Therefore, the Fourteenth Amendment does not apply. The Fifth Amendment, however, does apply to the Federal Government and contains an equal protection component. *Bolling v. Sharpe*, 347 U.S. 497, 499, 74 S.Ct. 693, 694, 98 L.Ed. 884 (1954). "This Court's approach to Fifth Amendment equal protection claims has ... been precisely the same as to equal protection claims under the Fourteenth Amendment." *Weinberger v.*

Wiesenfeld, 420 U.S. 636, 638, n. 2, 95 S.Ct. 1225, 1228, n. 2, 43 L.Ed.2d 514 (1975). See *Buckley v. Valeo*, 424 U.S. 1, 96 S.Ct. 612, 46 L.Ed.2d 659 (1976) (per curiam). The Petitioners raised the issue of discriminatory enforcement in their petition for certiorari, and both petitioners and respondents have briefed the issue fully. Accordingly, we address the claim as one under the Fifth Amendment.

FN22. Because we find no governmental action, we need not address the merits of the SFAA's discriminatory enforcement claim. We note, however, that the SFAA's claim of discriminatory enforcement is far from compelling. As of 1982 when this suit began, the USOC had brought 22 oppositions to trademark applications and one petition to cancel. App. 61. For example, the USOC successfully prohibited registration of the mark "Golden Age Olympics." *Id.*, at 383. The USOC also litigated numerous suits prior to bringing this action, prohibiting use of the Olympic words and symbols by such entities as the National Amateur Sports Foundation, *id.*, at 392, a shoe company, *id.*, at 395, the International Federation of Body Builders, *id.*, at 443, and a bus company, *id.*, at 439. Since 1982, the USOC has brought a number of additional suits against various companies and the March of Dimes Birth Defects Foundation, *id.*, at 437, and Brief for Respondents 41, n. 58. The USOC has authorized the use of the word "Olympic" to organizations that sponsor athletic competitions and events for handicapped persons ("Special Olympics") and for youth ("Junior Olympics" and "Explorer Olympics"). App. 33, 181. Both of these uses directly relate to a purpose of the USOC established by its charter. See 36 U.S.C. §§ 374(7), (13), reprinted *supra*, at 2981, n. 17. The

USOC has not consented to any other uses of the word in connection with athletic competitions or events. App. 33.

The USOC necessarily has discretion as to when and against whom it files opposition to trademark applications, and when and against whom it institutes suits. The record before us strongly indicates that the USOC has acted strictly in accord with its charter and that there has been no actionable discrimination.

FN23. As such, the USOC is listed with 69 other federally created private corporations such as the American Legion, Big Brothers--Big Sisters of America, Daughters of the American Revolution, Veterans of Foreign Wars of the United States, the National Academy of Sciences, and the National Ski Patrol System, Inc. 36 U.S.C. § 1101. It hardly need be said that if federally created private corporations were to be viewed as governmental rather than private actors, the consequences would be far reaching. Apart from subjecting these private entities to suits under the equal protection component of the Due Process Clause of the Fifth Amendment, presumably--by analogy--similar types of nonprofit corporations established under state law could be viewed as governmental actors subject to such suits under the Equal Protection Clause of the Fourteenth Amendment.

FN24. For example, the USOC may amend its constitution only after providing an opportunity for notice and hearing, § 375(b); the USOC must allow for reasonable representation in its membership of certain groups, § 376(b); the USOC must remain nonpolitical, § 377; and the USOC must report on its operations and expenditures of grant moneys to Congress each year, § 382a.

546** [19] *2986** Most fundamentally, this Court has held that a government "normally can be held responsible for a private decision only when it has exercised coercive power or has provided such significant encouragement, either overt or covert, that the choice must in law be deemed to be that of the [government]." *Blum v. Yaretsky*, supra, 457 U.S., at 1004, 102 S.Ct., at 2786; *Rendell-Baker v. Kohn*, supra, 457 U.S. at 840, 102 S.Ct., at 2771. See *Flagg Bros., Inc. v. Brooks*, 436 U.S. 149, 166, 98 S.Ct. 1729, 1738, 56 L.Ed.2d 185 (1978); *Jackson v. Metropolitan Edison Co.*, supra, 419 U.S., at 357, 95 S.Ct., at 456; *Moose Lodge No. 107 v. Irvis*, 407 U.S. 163, 173, 92 S.Ct. 1965, 1971, 32 L.Ed.2d 627 (1972); *Adickes v. S.H. Kress & Co.*, 398 U.S. 144, ***547** 170, 90 S.Ct. 1598, 1615, 26 L.Ed.2d 142 (1970). The USOC's choice of how to enforce its exclusive right to use the word "Olympic" simply is not a governmental decision. [FN28] There is no evidence that the Federal Government coerced or encouraged the USOC in the exercise of its right. At most, the Federal Government, by failing to supervise the USOC's use of its rights, can be said to exercise "[m]ere approval of or acquiescence in the initiatives" of the USOC. *Blum v. Yaretsky*, 457 U.S., at 1004-1005, 102 S.Ct., at 2785-2786. This is not enough to make the USOC's actions those of the Government. *Ibid.* See *Flagg Bros., Inc. v. Brooks*, supra, 436 U.S., at 164-165, 98 S.Ct., at 1737-1738; *Jackson v. Metropolitan Edison Co.*, 419 U.S., at 357, 95 S.Ct., at 456. [FN29] Because the USOC is not a governmental ****2987** actor, the SFAA's claim that the USOC has enforced its rights in a discriminatory manner must fail. [FN30]

FN28. In fact, the Olympic Charter provides that the USOC "must be autonomous and must resist all pressures of any kind whatsoever, whether of a political, religious or economic nature." Rule 24.

FN29. For all of the same reasons indicated above, we reject the SFAA's argument that the United States Government should be viewed as a "joint participant" in the USOC's efforts to enforce its right to use the word "Olympic." See *Burton v. Wilmington Parking Authority*, 365 U.S. 715, 725, 81 S.Ct. 856, 861, 6 L.Ed.2d 45 (1961). The SFAA has failed to demonstrate that the Federal Government can or does exert any influence over the exercise of the USOC's enforcement decisions. Absent proof of this type of "close nexus between the [Government] and the challenged action of the [USOC]," the challenged action may not be "fairly treated as that of the [Government] itself." *Jackson v. Metropolitan Edison Co.*, 419 U.S., at 351, 95 S.Ct., at 453.

FN30. In their petition for certiorari, petitioners argued only that because the USOC is a "state actor" it is prohibited from "selecting among diverse potential users of the word 'Olympic', based upon speech-suppressing and invidiously discriminatory motives." Pet. for Cert. i. The SFAA now argues that under *Shelley v. Kraemer*, 334 U.S. 1, 68 S.Ct. 836, 92 L.Ed. 1161 (1948), the District Court's entry of the injunction prohibiting the SFAA's use of the word "Olympic" constitutes governmental action sufficient to require a constitutional inquiry into the USOC's motivation in seeking the injunction. This new theory of governmental action is not fairly encompassed within the questions presented and thus is not properly before the Court. See this Court's Rule 21.1(a).

***548 V**

Accordingly, we affirm the judgment of the Court of Appeals for the Ninth Circuit.

It is so ordered.

Justice O'CONNOR, with whom Justice BLACKMUN joins, concurring in part and dissenting in part.

I agree with the Court's construction of § 110 of the Amateur Sports Act, 92 Stat. 3048, 36 U.S.C. § 380, and with its holding that the statute is "within constitutional bounds." Ante, at 2980. Therefore, I join Parts I through III of the Court's opinion. But largely for the reasons explained by Justice BRENNAN in Part I-B of his dissenting opinion, I believe the United States Olympic Committee and the United States are joint participants in the challenged activity and as such are subject to the equal protection provisions of the Fifth Amendment. Accordingly, I would reverse the Court of Appeals' finding of no Government action and remand the case for determination of petitioners' claim of discriminatory enforcement.

Justice BRENNAN, with whom Justice MARSHALL joins, dissenting.

The Court wholly fails to appreciate both the congressionally created interdependence between the United States Olympic Committee (USOC) and the United States, and the significant extent to which § 110 of the Amateur Sports Act of 1978, 36 U.S.C. § 380, infringes on noncommercial speech. I would find that the action of the USOC challenged here is Government action, and that § 110 is both substantially overbroad and discriminates on the basis of content. I therefore dissent.

I

For two independent reasons, the action challenged here constitutes Government action. First, the USOC performs important governmental functions and should therefore be considered a governmental actor. Second, there exists "a ***549** sufficiently close nexus between the [Government] and the challenged action" of the USOC that "the action of the latter may be fairly treated as that of the [Government] itself." *Jackson v. Metropolitan*

Edison Co., 419 U.S. 345, 351, 95 S.Ct. 449, 453, 42 L.Ed.2d 477 (1974).

A

Examination of the powers and functions bestowed by the Government upon the USOC makes clear that the USOC must be considered a Government actor. It is true, of course, that the mere "fact '[t]hat a private entity performs a function which serves the public does not make its acts [governmental]' " in nature. Ante, at 2984-2985 (quoting *Rendell-Baker v. Kohn*, 457 U.S. 830, 842, 102 S.Ct. 2764, 2772, 73 L.Ed.2d 418 (1982) (emphasis added)). Such a definition, which might cover "all ... regulated businesses providing arguably essential goods and services," would sweep too broadly. *Jackson*, supra, 419 U.S., at 354, 95 S.Ct., at 455.

The Court has repeatedly held, however, that "when private individuals or groups are endowed by the State with powers or functions governmental in nature, they become agencies or instrumentalities of the ****2988** State and subject to its constitutional limitations." *Evans v. Newton*, 382 U.S. 296, 299, 86 S.Ct. 486, 488, 15 L.Ed.2d 373 (1966) (emphasis added). See *Terry v. Adams*, 345 U.S. 461, 73 S.Ct. 809, 97 L.Ed. 1152 (1953) (private political association and its elections constitute state action); *Marsh v. Alabama*, 326 U.S. 501, 66 S.Ct. 276, 90 L.Ed. 265 (1946) (privately owned "company town" is a state actor). Moreover, a finding of government action is particularly appropriate when the function performed is "traditionally the exclusive prerogative" of government. *Jackson v. Metropolitan Edison Co.*, supra, 419 U.S., at 353, 95 S.Ct., at 455. Patently, Congress has endowed the USOC with traditional governmental powers that enable it to perform a governmental function. [FN1

]***

C

A close examination of the USOC and the Government thus reveals a unique interdependence between the two. Although at one time amateur sports was a concern

merely of private entities, and the Olympic Games an event of significance only to individuals with a particular interest in athletic competition, that era is passed. In the Amateur Sports Act of 1978, Congress placed the power and prestige of the United States Government behind a single, central sports organization. Congress delegated to the USOC functions ***560** that Government actors traditionally perform--the representation of the Nation abroad and the administration of all private organizations in a particular economic sector. The representation function is of particular significance here, in my view, because an organization that need not adhere to the Constitution cannot meaningfully represent this Nation. The Government is free, of course, to "privatize" some functions it would otherwise perform. But such privatization ought not automatically release those who perform Government functions from constitutional obligations.

FN18. Section 110 of the Amateur Sports Act, 36 U.S.C. § 380, provides in part:

"Without the consent of the [USOC], any person who uses for the purpose of trade, to induce the sale of any goods or services, or to promote any theatrical exhibition, athletic performance, or competition--

* * *

"(3) any trademark, trade name, sign, symbol, or insignia falsely representing association with, or authorization by, the International Olympic Committee or t h e [U S O C] ; o r

"(4) the words 'Olympic ', 'Olympiad', 'Citius Altius Fortius', or any combination or simulation thereof tending to cause confusion, to cause mistake, to deceive, or to falsely suggest a connection with the [USOC] or any 'Olympic activity';

"shall be subject to suit in a civil action by the [USOC] for the remedies provided in the Act of July 5, 1946 (60 Stat. 427; popularly known as the

Trademark Act of 1946 [Lanham Act, 15 U.S.C. § 1051 et seq.])" (emphases added).

FN19. In the Court's view, § 110(a)(4) does not necessarily extend to purely expressive speech. Ante, at 2980, and n. 14.

I disagree. The statute is overbroad on its face because it is susceptible of application to a substantial amount of noncommercial speech, and vests the USOC with unguided discretion to approve and disapprove others' noncommercial use of "Olympic." Moreover, by eliminating even noncommercial uses of a particular word, it unconstitutionally infringes on the SFAA's right to freedom of expression. The Act also restricts speech in a way that is not content neutral. The Court's justifications of these infringements on First Amendment rights are flimsy. The statute cannot be characterized as a mere regulation of the "manner" of speech, and does not serve any Government purpose that would not effectively be protected by giving the USOC a standard commercial trademark. Therefore, as construed by the Court, § 110(a)(4) cannot withstand the First Amendment challenge presented by petitioners.

A

The USOC has held a trademark in the word "Olympic" since 1896, ante, at 7, and § 110(a)(3) of the Amateur Sports ***562** Act perpetuates the USOC's protection against infringement of its trademarks. To be more than statutory surplusage, then, § 110(a)(4) must provide something more than a normal trademark. Thus, the Court finds that § 110(a)(4) grants to the USOC a novel and expansive word-use authority. [FN20] In my view, the Act, as interpreted by the Court, is substantially overbroad, violating the First Amendment because it prohibits "a substantial amount of constitutionally protected conduct." *Hoffman Estates v. The Flipside, Hoffman Estates, Inc.*, 455 U.S. 489, 494, 102 S.Ct. 1186, 1191, 71 L.Ed.2d 362 (1982). The Amateur Sports Act is substantially overbroad in two respects. First,

it grants the USOC the remedies of a commercial trademark to regulate the use of the word "Olympic," but refuses to interpret the Act to incorporate the defenses to trademark infringement ****2995** provided in the Lanham Act. These defenses are essential safeguards which prevent trademark power from infringing upon constitutionally protected speech. Second, the Court construes § 110(a)(4) to grant the USOC unconstitutional authority to prohibit use of "Olympic" in the "promotion of theatrical and athletic events," even if the promotional activities are noncommercial or expressive. Ante, at ----. [FN21]

FN20. The legislative history of the Act is consistent with its plain language and indicates that Congress granted word-use authority beyond the power to enforce a trademark. Congress' purpose was to give the USOC authority "to protect certain symbols, emblems, trademarks, tradenames and words by civil action." H.R.Rep. No. 95-1627, p. 10 (1978), U.S.Code Cong. & Admin.News 1978, p. 7483 (emphasis added). Significantly, throughout the House Report, Congress refers to the USOC's authority over the use of "Olympic" as a matter separate from the USOC's authority to enforce its trademarks. See, e.g., id., at 6, 7, 10, 15, 37-38, U.S.Code Cong. & Admin.News 1978, pp. 7479, 7480, 7483, 7488, 7495, 7496. Nowhere in the legislative history is there any hint that Congress equated the USOC's word-use authority over "Olympic" with its trademark power.

FN21. In interpreting the Amateur Sports Act, the Court selectively incorporates sections of the Lanham Act. Although the Court refuses to incorporate 15 U.S.C. § 1066 (requirement of consumer confusion) and § 1115 (statutory defenses), it does appear to incorporate § 1127. Ante, at 2978. This latter section limits

the scope of trademark protection to a word "used by a manufacturer or merchant to identify and distinguish his goods, including a unique product, from those manufactured or sold by others." 15 U.S.C. § 1127 (1982 ed., Supp. III). The Court does not explain, however, the inconsistency between the definition of trademark protection in § 1127 (which limits protection to commercial uses) and the scope of the protection that § 110(a)(4) grants the USOC (including the noncommercial promotion of athletic and theatrical events).

*563 1

The first part of § 110 prohibits use of the word "Olympic" "for the purpose of trade" or "to induce the sale of any goods or services." There is an important difference between the word-use authority granted by this portion of § 110 and a Lanham Act trademark: the former primarily affects noncommercial speech, [FN22] while the latter does not. [FN23]

FN22. As the District Court recognized: "You're saying something that I have trouble with. You're talking Trademark Act and trademark law, trademark policies and philosophies of this country. But we have a unique situation here which takes it out of the typical trademark-type of litigation. [Section 110 of the Amateur Sports Act] imposes civil liability ... upon any person who uses [the word "Olympic"] without U.S.O.C. consent to promote any athletic performance or competition....

"... The plaintiffs here are seeking to enforce a law ... which creates a unique and different situation...." App. 265-266.

FN23. See *Friedman v. Rogers*, 440 U.S. 1, 11, 99 S.Ct. 887, 895, 59 L.Ed.2d 100 (1979) (trademark protections only extend to "strictly business" matters and involve "a form

of commercial speech and nothing more"). In no trademark case that the Court has considered have we permitted trademark protection to ban a substantial amount of noncommercial speech. See, e.g., *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 201, 105 S.Ct. 658, 665, 83 L.Ed.2d 582 (1985) (Lanham Act provisions prevent "commercial monopolization" of descriptive language in the public domain).

Charitable solicitation and political advocacy by organizations such as SFAA [FN24] may in part consist of commercial *564 speech regulated by trademark law, but the expressive element of such speech has been sheltered from unconstitutional harm by Lanham Act defenses. Without them, the Amateur Sports Act prohibits a substantial amount of noncommercial speech.

FN24. The SFAA engages in political advocacy and charitable solicitation, activities that are protected by the First Amendment. See *Schaumburg v. Citizens for a Better Environment*, 444 U.S. 620, 632, 100 S.Ct. 826, 833, 63 L.Ed.2d 73 (1980) (charitable solicitation by an organization committed to political advocacy "involve[s] a variety of speech interests-- communication of information, the dissemination and propagation of views and ideas, and the advocacy of causes--that are within the protection of the First Amendment"). It is chartered as a nonprofit, educational organization whose purpose is to inform the general public about the "gay movement" and "to diminish the ageist, sexist and racist divisiveness existing in all communities regardless of sexual orientation." App. 93, 102. The SFAA solicited charitable donations and distributed T-shirts, buttons, and posters using the word "Olympic."

Trademark protection has been carefully confined to the realm of commercial speech by two important limitations in the Lanham Act. First, the danger of substantial regulation of noncommercial speech is diminished by denying enforcement of a trademark against uses of words that are not likely "to cause confusion, to cause mistake, or to deceive." See 15 U.S.C. § 1066. Confusion occurs when consumers make an incorrect mental association between the involved commercial products or their producers. See E. Vandenburg, *Trademark Law and Procedure* § 5.20, p. 139 (2d ed. 1968). In contrast, § 110(a)(4) regulates even nonconfusing uses of "Olympic." For example, it may be that while SFAA's use of the word "Olympic" would draw attention to certain similarities between the "Gay Olympic Games" and the "Olympic Games," its use might nevertheless not confuse consumers. Because § 110 does not incorporate the requirement that a defendant's use of the word be confusing to consumers, it regulates an extraordinary range of noncommercial speech. [FN25]

FN25. In its complaint, the USOC included a cause of action under § 14330 of the California Business and Professional Code (1987), which protects trademark holders against uses which dilute the value of their trademark. App. 7-14. The USOC has not explained, however, why the remedies provided by the California dilution statute are insufficient.

It is worth noting that, although some state dilution statutes do not require proof of actual confusion, they do impose other limitations that are not imposed by § 110. "The dilution doctrine cannot and should not be carried to the extreme of forbidding use of a trademark on any and all products and services, however remote from the owner's usage." 2 J. McCarthy, *Trademarks and Unfair Competition* § 24:16, p. 229 (2d ed. 1984); see also 1 J. Gilson, *Trademark Protection and Practice* § 5.05[9], p. 5-

42 (1986). Only "strong" trademarks are protected by dilution statutes, and the plaintiff's trademark must not previously have been diluted by others. 2 McCarthy, *supra*, § 24:14, p. 224; E. Vandenburg, *Trademark Law and Procedure* § 5.20, p. 150 (2d ed. 1968). It is generally necessary to show similarity between trademarks and a "likelihood" of confusion. See 1 Gilson, *supra*, § 5.05[9], p. 5-42. Moreover, state dilution statutes do not generally apply to descriptive, nontrademark uses of words.

***565** The fair-use defense also prevents the award of a trademark from regulating a substantial amount of noncommercial speech. See 15 U.S.C. § 1115(b)(4). The Lanham Act allows "the use of the name, term, or device ... which is descriptive of and used fairly and in good faith only to describe to users the goods or services of such party." *Ibid.* [FN26] Again, a wide array of noncommercial speech may be characterized as merely descriptive of the goods or services of a party, and thus not intended to propose a commercial transaction. For example, the SFAA's description of its community services appears to be regulated by § 110, although the main purpose of such speech may be to educate the public about the social and political views of the SFAA. Congress' failure to incorporate this important defense in § 110(a)(4) confers an unprecedented right on the USOC. See *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 200-201, 105 S.Ct. 658, 664-665, 83 L.Ed.2d 582 (1985) (noting that fair-use doctrine assists in preventing the "unprecedented" creation of "an exclusive right to use language that is descriptive of a product"). [FN27]

FN26. It is important to note that even after a trademark has acquired secondary meaning, it may be used in a good-faith descriptive manner under the Lanham Act. See 1 McCarthy, *supra*, § 11:16, p. 475.

FN27. One commentator has described the First Amendment significance of this Lanham Act defense with respect to the regulation of commercial speech: "Virginia [State Board of] Pharmacy [v. Virginia Citizens Consumer Council] [425 U.S. 748, 96 S.Ct. 1817, 48 L.Ed.2d 346 (1976)] and the underlying policies in favor of free commercial speech are closely parallel to those which apply to the branch of trademark law dealing with descriptive words and phrases. The same or very similar policies have been followed for more than a half century by courts and legislatures applying the rule of trademark law that descriptive words and terms cannot be monopolized as trademarks.... Without such availability, fair and open competition might be impaired, the available vocabulary of descriptive words would be reduced, advertisers could not freely describe their products, and the public might be deprived of information necessary to make purchase decisions.... If the court finds ... that defendant is using the term in a purely descriptive manner, it presumably can support its holding by reliance on the Virginia Pharmacy doctrine and policies." 1 Gilson, *supra*, § 5.09[5], pp. 5-88 to 5-89 (footnotes omitted).

566** In sum, while the USOC's trademark of "Olympic" allows the USOC to regulate use of the word in the "strictly business" context, the USOC's authority under § 110(a)(4) to regulate nonconfusing and good-faith descriptive uses of the word "Olympic" grants the USOC discretion to *2997** prohibit a substantial amount of noncommercial speech. Section 110(a)(4) is therefore substantially overbroad. See *Secretary of State of Md. v. Joseph H. Munson Co.*, 467 U.S. 947, 959, 104 S.Ct. 2839, 2848, 81 L.Ed.2d 786 (1984); *Schaumburg v. Citizens for a Better Environment*, 444 U.S. 620, 632, 100 S.Ct. 826, 833, 63 L.Ed.2d 73 (1980).

2

A key Lanham Act requirement that limits the impact of trademarks on noncommercial speech is the rule that a trademark violation occurs only when an offending trademark is applied to commercial goods and services. See 15 U.S.C. §§ 1066 and 1127. The Amateur Sports Act is not similarly qualified. Section 110(a)(4) "allows the USOC to prohibit the use of 'Olympic' for promotion of theatrical and athletic events," [FN28] even if such uses "go beyond the 'strictly business' ***567** context." Ante, at 2980; see also ante, at 2983 (statute extends to promotional uses "even if the promotion is not to induce the sale of goods"). [FN29] This provision necessarily regulates only noncommercial speech, since every possible commercial use of the word "Olympic" is regulated by preceding sections of the statute. [FN30]

FN28. Noncommercial promotion may include critical reviews of theatrical performances, anticipatory notices and descriptions in the media of athletic competitions, and distribution of educational literature describing the sociopolitical reasons for holding the public events. See *Central Hudson Gas & Elec. Corp. v. Public Service Comm'n*, 447 U.S. 557, 580, 100 S.Ct. 2343, 2358, 65 L.Ed.2d 341 (1980) (STEVENSON, J., concurring in judgment) (promotional advertising encompasses more than commercial speech). For example, in response to the injunction, the SFAA excised the use of "Olympic" from its promotional and educational literature, cautioned its phone operators to refrain from using the term, and advised media representatives not to use this word in conjunction with articles about the cultural and athletic events sponsored by the SFAA. App. 88-92, 94-115.

FN29. Before concluding that the incidental regulation of some expressive speech is justified, ante, at 2983, the Court states that it is not

clear that § 110 restricts purely expressive uses of "Olympic," ante, at 2980-2981. Such vagueness suggests that the Amateur Sports Act dangerously chills even purely expressive speech. In the instant case, a local newspaper organization excised "Olympic" from an edition in response to the imposed injunction. App. 89. See also n. 28, supra.

FN30. Every commercial use of "Olympic" is regulated under passages of the statute which precede this part of § 110. The USOC is authorized to regulate use of the word as a trademark under § 110(a)(3). All remaining commercial uses of "Olympic" not regulated by that subsection are governed by § 110(a)(4)'s authorization of the USOC to control the use of "Olympic" by "any person ... for the purpose of trade" or "to induce the sale of any goods or services." Consistent with the Court's interpretation, this authorization gives the USOC the right to Lanham Act remedies, even if SFAA's use of "Olympic" is noncommercial, nonconfusing, and merely descriptive.

While the USOC has unquestioned authority to enforce its "Olympic" trademark against the SFAA, § 110(a)(4) gives it additional authority to regulate a substantial amount of noncommercial speech that serves to promote social and political ideas. The SFAA sponsors a number of nonprofit-making theatrical and athletic events, including concerts, film screenings, and plays. [FN31] These public events are aimed at educating the public about society's alleged discrimination based on *568 sexual orientation, age, sex, and nationality. App. 93-99. In conjunction with these events, the SFAA distributes literature describing the meaning of the Gay Olympic Games. References to "Olympic" in this literature were deleted in response to the injunction, because of § 110's application to the promotion of

athletic and theatrical events. *Id.*, at 88- 89, 94, 97.

FN31. The SFAA's amateur athletic events include competition by age-groups with mixed genders in some sports to promote a climate of competition that emphasizes personal improvement rather than winning, and promotes goodwill toward all ages, sexes, and races. App. 98.

3

Thus, contrary to the belief of the Court, § 110 may prohibit a substantial amount of noncommercial speech, and is therefore unconstitutionally overbroad. *Schaumburg v. Citizens for a Better Environment*, supra, 444 U.S., at 632, 100 S.Ct., at 833. This overbreadth is particularly significant in light of the unfettered discretion the Act affords to the USOC to prohibit other entities from using the word "Olympic." Given the large number of such users, [FN32] this broad discretion creates the potential for significant suppression of protected speech. "[A] law subjecting the exercise of First Amendment freedoms to the prior restraint of a license, without narrow, objective, and definite standards to guide the licensing authority, is unconstitutional." *Shuttlesworth v. Birmingham*, 394 U.S. 147, 150-151, 89 S.Ct. 935, 938, 22 L.Ed.2d 162 (1969). See also *Niemtko v. Maryland*, 340 U.S. 268, 272, 71 S.Ct. 325, 327, 95 L.Ed. 267 (1951). "Proof of an abuse of power in the particular case has never been deemed a requisite for attack on the constitutionality of a statute purporting to license the dissemination of ideas." *Thornhill v. Alabama*, 310 U.S. 88, 97, 60 S.Ct. 736, 741, 84 L.Ed. 1093 (1940). This broad discretion, with its potential for abuse, also renders § 110 unconstitutionally overbroad on its face.

FN32. See Brief for Respondents 40-41. In Los Angeles and Manhattan alone, there are over 200 enterprises and organizations listed in the telephone directories whose names

start with the word "Olympic." 789 F.2d 1319, 1323 (CA9 1986) (Kozinski, J., dissenting).

B

The Court concedes that "some" uses of "Olympic" prohibited under § 110 may involve expressive speech. Ante, at *569 2980. But it contends that "[b]y prohibiting the use of one word for particular purposes, neither Congress nor the USOC has prohibited the SFAA from conveying its message.... Section 110 restricts only the manner in which the SFAA may convey its message." Ante, at 2981 (emphasis added). Section 110(a)(4) cannot be regarded as a mere time, place, and manner statute, however. By preventing the use of the word "Olympic," the statute violates the First Amendment by prohibiting dissemination of a message for which there is no adequate translation.

In *Cohen v. California*, 403 U.S. 15, 91 S.Ct. 1780, 29 L.Ed.2d 284 (1971), we rejected the very notion advanced today by the Court when considering the censorship of a single four-letter expletive:

"[W]e cannot indulge the facile assumption that one can forbid particular words without also running a substantial risk of suppressing ideas in the process. Indeed, governments might soon seize upon the censorship of particular words as a convenient guise for banning the expression of unpopular views. We have been able ... to discern little social benefit that might result from running the risk of opening the door to such grave results." *Id.*, at 26, 91 S.Ct., at 1787-1788.

The Amateur Sports Act gives a single entity exclusive control over a wide range of uses of a word with a deep history in the English language and Western culture. Here, the SFAA intended, by use of the word "Olympic," to promote a realistic image of homosexual men and women that would help them move into the mainstream of their communities. As Judge Kozinski observed in dissent in the Court of Appeals, just as a jacket reading "I Strongly Resent the Draft" would not have

conveyed Cohen's message, so a title such as "The Best and Most Accomplished Amateur Gay Athletes Competition" would not serve as an adequate translation of petitioners' message. 789 F.2d 1319, 1321 (CA9 1986). Indeed, because individual words carry "a life and force of their own," translations never fully capture the sense *570 of the original. [FN33] The First Amendment protects **2999 more than the right to a mere translation. By prohibiting use of the word "Olympic," the USOC substantially infringes upon the SFAA's right to communicate ideas.

FN33. James Boyd White has written: "When we look at particular words, it is not their translation into statements of equivalence that we should seek but an understanding of the possibilities they represent for making and changing the world.... Such words do not operate in ordinary speech as restatable concepts but as words with a life and force of their own. They cannot be replaced with definitions, as though they were parts of a closed system, for they constitute unique resources, of mixed fact and value, and their translation into other terms would destroy their nature. Their meaning resides not in their reducibility to other terms but in their irreducibility.... They operate indeed in part as gestures, with a meaning that cannot be restated." J. White, *When Words Lose Their Meaning* 11 (1984).

C

The Amateur Sports Act also violates the First Amendment because it restricts speech in a way that is not content neutral. A wide variety of groups apparently wish to express particular sociopolitical messages through the use of the word "Olympic," but the Amateur Sports Act singles out certain of the groups for favorable treatment. As the Court observes, ante, at 2984, n. 22, Congress encouraged the USOC to allow the use of "Olympic" in athletic competitions held for youth ("Junior Olympics" and "Explorer Olympics") and handicapped

persons ("Special Olympics"), 36 U.S.C. § 374(13), while leaving to the USOC's unfettered discretion the question whether other groups may use it. See, e.g., *USOC v. Golden Age Olympics, Inc.*, Opposition No. 62,426 (Patents and Trademarks Comm'n, June 4, 1981) (reprinted in App. 383) (denial of use of "Olympic" to senior citizens group); *USOC v. International Federation of Body Builders*, 219 USPQ 353 (DC 1982) (denial of use to organization promoting body-building).

The statute thus encourages the USOC to endorse particular noncommercial messages, while prohibiting others. Such ***571** a scheme is unacceptable under the First Amendment. [FN34] "[A]bove all else, the First Amendment means that government has no power to restrict expression because of its message, its ideas, its subject matter, or its content." *Police Department of Chicago v. Mosley*, 408 U.S. 92, 95, 92 S.Ct. 2286, 2290, 33 L.Ed.2d 212 (1972). See also *Regan v. Time, Inc.*, 468 U.S. 641, 648-649, 104 S.Ct. 3262, 3266-3267, 82 L.Ed.2d 487 (1984) (holding that Government determination of publishability of photographs based on whether message is "newsworthy or educational" constitutes content-based discrimination in violation of First Amendment).

FN34. Due to the particular meaning of "Olympic," the suppression of the use of the word has its harshest impact on those groups that may benefit most from its use, such as those with debilitating birth defects, see *USOC v. March of Dimes Birth Defects Foundation*, No. CA 83-539 (Colo., July 1, 1983), and the aged, see *USOC v. Golden Age Olympics, Inc.*, Opposition No. 62,426. Cf. *Virginia Pharmacy Bd. v. Virginia Citizens Consumer Council, Inc.*, 425 U.S. 748, 763, 96 S.Ct. 1817, 1826, 48 L.Ed.2d 346 (1976).

D

Even if § 110(a)(4) may fairly be characterized as a statute that directly regulates only commercial speech, its

incidental restrictions on First Amendment freedoms are greater than necessary to further a substantial Government interest. The sole Government interest proffered for giving the USOC sweeping powers over the use of "Olympic" is the desire to provide a financial subsidy to the USOC. Brief for Respondents 24. At minimum, it is necessary to consider whether the USOC's interest in use of the word "Olympic" could not adequately be protected by rights coextensive with those in the Lanham Act, or by some other restriction on use of the word.

In the absence of § 110(a)(4), the USOC would have authority under the Lanham Act to enforce its "Olympic" trademark against commercial uses of the word that might cause ***572** consumer confusion and a loss of the mark's distinctiveness. [FN35] There is no evidence in the record that this authority is insufficient to protect the USOC from economic harm. The record and the legislative history are barren of proof or ****3000** conclusion that noncommercial, nonconfusing, and nontrademark use of "Olympic" in any way dilutes or weakens the USOC's trademark. See *Stop The Olympic Prison v. United States Olympic Committee*, 489 F.Supp. 1112, 1123 (SDNY 1980) (dismissing USOC's dilution claim because no actual proof of such injury). No explanation is offered, for instance, as to how the use of "Olympic" in theatrical events in conjunction with a disclaimer "not associated with [the USOC]" harms the economic force of the trademark. See Brief for Petitioners 12. The Court contends that § 110 may prohibit uses of "Olympic" because it protects an "image carefully cultivated by the USOC." Ante, at 2983. Again, there is no proof in the record that the Lanham Act inadequately protects the USOC's commercial interest in its image or that the SFAA has harmed the USOC's image by its speech. [FN36]

FN35. In this litigation, the USOC filed causes of action under the Lanham Act, the Amateur Sports Act, and the California dilution statute. App. 7- 14.

FN36. Nor is there any evidence that SFAA's expressive speech caused economic or reputational harm to the USOC's image. In *Spence v. Washington*, 418 U.S. 405, 94 S.Ct. 2727, 41 L.Ed.2d 842 (1974), a State asserted a similar interest in the integrity of America's flag as " 'an unalloyed symbol of our country,' " and contended that there is a substantial Government interest in "preserving the flag as 'an important symbol of nationhood and unity.' " *Id.*, at 421, 94 S.Ct., at 2735. The Court considered whether a State could withdraw "a unique national symbol from the roster of materials that may be used as a background for communications." *Id.*, at 423, 94 S.Ct., at 2736 (REHNQUIST, J., dissenting). It reviewed a state law that limited the use of the American flag and forbade the public exhibition of a flag that was distorted or marked. *Id.*, at 407, 422, 94 S.Ct., at 2728, 2736. The appellant was convicted for violating the statute by displaying the flag upside down in the window of his apartment with a peace symbol attached to it. Eight Members of the Court held that the statute was unconstitutional as applied to appellant's activity. "There was no risk that appellant's acts would mislead viewers into assuming that the Government endorsed his viewpoint," and "his message was direct, likely to be understood, and within the contours of the First Amendment." *Id.*, at 414-415, 94 S.Ct., at 2732. The Court concluded that since the state interest was not "significantly impaired," the conviction violated the First Amendment. *Id.*, at 415, 94 S.Ct., at 2732. Similarly, in this case, the SFAA's primary purpose was to convey a political message that is nonmisleading and direct. This message, like the symbolic speech in *Spence*, is protected by the First Amendment.

***573** Language, even in a commercial context, properly belongs to the public, unless the Government's asserted interest is substantial, and unless the limitation imposed is no more extensive than necessary to serve that interest. See ante, at 2981, n. 16; see also *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S., at 215, n. 21, 105 S.Ct., at 672, n. 21 (STEVENS, J., dissenting), citing *Otto Roth & Co. v. Universal Foods Corp.*, 640 F.2d 1317, 1320 (CCPA 1981) (recognizing importance of "free use of the language" in commercial speech context). [FN37] The Lanham Act is carefully crafted to prevent commercial monopolization of language that otherwise belongs in the public domain. See *Park 'N Fly, Inc.*, supra, 469 U.S. at 200-201, 105 S.Ct., at 664-665. [FN38] The USOC demonstrates no need for additional protection. In my view, the SFAA therefore is entitled to use the word "Olympic" in a nonconfusing and nonmisleading manner in the noncommercial promotion of a theatrical or athletic event, absent proof of resultant harm to the USOC.

FN37. See also *Bada Co. v. Montgomery Ward & Co.*, 426 F.2d 8, 11 (CA9) ("[O]ne competitor will not be permitted to impoverish the language of commerce by preventing his fellows from fairly describing their own goods"), cert. denied, 400 U.S. 916, 91 S.Ct. 174, 27 L.Ed.2d 155 (1970).

FN38. The Lanham Act "provides national protection of trademarks in order to secure to the owner of the mark the goodwill of his business and to protect the ability of consumers to distinguish among competing producers." *Park 'N Fly, Inc.*, 469 U.S., at 198, 105 S.Ct., at 663.

I dissent.

The 1st Amendment & "Venerated Objects"

109 S.Ct. 2533

105 L.Ed.2d 342, 57 USLW 4770

(Cite as: 491 U.S. 397, 109 S.Ct. 2533)

**TEXAS, Petitioner v. Gregory Lee
JOHNSON.**

No. 88-155.

Supreme Court of the United States

Argued March 21, 1989.

Decided June 21, 1989.

Defendant was convicted in the County Criminal Court No. 8, Dallas County, John C. Hendrik, J., of desecration of venerated object, and he appealed.

***399** Justice BRENNAN delivered the opinion of the Court.

After publicly burning an American flag as a means of political protest, Gregory Lee Johnson was convicted of desecrating a flag in violation of Texas law. This case presents the question whether his conviction is consistent with the First Amendment. We hold that it is not.

We never before have held that the Government may ensure that a symbol be used to express only one view of that symbol or its referents. Indeed, in *Schacht v. United States*, we invalidated a federal statute permitting an actor portraying a member of one of our Armed Forces to "wear the uniform of that armed force if the portrayal does not tend to discredit that armed force." 398 U.S., at 60, 90 S.Ct., at 1557, quoting 10 U.S.C. § 772(f). This proviso, we held, "which leaves Americans free to praise the war in Vietnam but can send persons like Schacht to prison for opposing it, cannot survive in a country which has the First Amendment." *Id.*, at 63, 90 S.Ct., at 1559.

We perceive no basis on which to hold that the principle underlying our decision in *Schacht* does not apply to this case. To

conclude that the government may permit ****2547** designated symbols to be used to communicate only a limited set of messages would be to enter territory having no discernible or defensible boundaries. Could the government, on this theory, prohibit the burning of state flags? Of copies of the Presidential seal? Of the Constitution? In evaluating these choices under the First Amendment, how would we decide which symbols were sufficiently special to warrant this unique status? To do so, we would be forced to consult our own political preferences, and impose them on the citizenry, in the very way that the First Amendment forbids us to do. See *Carey v. Brown*, 447 U.S., at 466-467, 100 S.Ct., at 2293-2294.

Chief Justice REHNQUIST, with whom Justice WHITE and Justice O'CONNOR join, dissenting.

Only two Terms ago, in *San Francisco Arts & Athletics, Inc. v. United States Olympic Committee*, 483 U.S. 522, 107 S.Ct. 2971, 97 L.Ed.2d 427 (1987), the Court held that Congress could grant exclusive use of the word "Olympic" to the United States Olympic Committee. The Court thought that this "restrictio [n] on expressive speech properly [was] characterized as incidental to the primary congressional purpose of encouraging and rewarding the USOC's activities." *Id.*, at 536, 107 S.Ct., at 2981. As the Court stated, "when a word [or symbol] acquires value 'as the result of organization and the expenditure of labor, skill, and money' by an entity, that entity constitutionally may obtain a limited property right in the word [or symbol]." *Id.*, at 532, 107 S.Ct., at 2974, quoting *International News Service v. Associated Press*, 248 ***430** U.S. 215, 239, 39 S.Ct. 68, 72, 63 L.Ed. 211 (1918). Surely Congress or the States may recognize a similar interest in the flag.

Surely one of the high purposes of a democratic society is to legislate against

conduct that is regarded as evil and profoundly offensive to the majority of people--whether it be murder, embezzlement, pollution, or flag burning.**** Uncritical extension of constitutional protection to the burning of the flag risks the frustration of the very purpose for which organized governments are instituted. The Court decides that the American flag is just another symbol, about which not only must opinions pro and con be tolerated, but for which the most minimal public respect may not be enjoined. The government may conscript men into the Armed Forces where they must fight and perhaps die for the flag, but the government may not prohibit the public burning of the banner under which they fight. I would uphold the Texas statute as applied in this case.

102d CONGRESS

1st Session

H. R. 2723

To grant the United States a copyright to the Flag of the United States and to impose criminal penalties for the destruction of a copyrighted Flag.

IN THE HOUSE OF REPRESENTATIVES**June 20, 1991**

Mr. TORRICELLI introduced the following bill; which was referred to the Committee on the Judiciary

A BILL

To grant the United States a copyright to the Flag of the United States and to impose criminal penalties for the destruction of a copyrighted Flag.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. UNITED STATES GRANTED COPYRIGHT TO THE FLAG OF THE UNITED STATES.

The United States is hereby granted a copyright to the Flag of the United States.

SEC. 2. LICENSE TO MANUFACTURE, SELL, OR DISTRIBUTE THE FLAG OF THE UNITED STATES.

The United States hereby grants a license to any person to manufacture in the United States the Flag of the United States, and to sell and distribute such Flag.

SEC. 3. REQUIREMENTS OF THE DISPLAY OF THE FLAG OF THE UNITED STATES.

Any Flag of the United States may only be displayed in accordance with chapter 1 of title 4, United States Code, (relating to the Flag of the United States) and the joint resolution entitled 'Joint Resolution to codify and emphasize existing rules and customs pertaining to the display and use of the flag of the United States of America', approved June 22, 1942 (36 U.S.C. 174-178).

SEC. 4. CRIMINAL PENALTIES FOR BURNING OR MUTILATING THE FLAG OF THE UNITED STATES.

(a) IN GENERAL- Whoever burns or otherwise mutilates a Flag of the United States shall be punished as follows:

(1) If the damage to such Flag exceeds \$100, by a fine of not more than \$10,000 or imprisonment for not more than 10 years, or both.

(2) If the damage to such Flag does not exceed \$100, by a fine of not more than \$1,000 or imprisonment for not more than one year, or both.

(b) EXCEPTION- Subsection (a) shall not apply with respect to whoever destroys a Flag of the United States in accordance with section 4 of the joint resolution referred to in section 3.

SEC. 5. DEFINITIONS.

As used in this Act--

(1) the term 'Flag of the United States' means a rectangular design which consists of 13 horizontal stripes, alternate red and white, with a union of 50 white stars in a blue field, and which the average person, upon seeing such design, may believe without deliberation to represent the Flag of the United States of America; and

(2) the term 'United States', when used in the geographical sense, means the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, any possession of the United States, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the Pacific Islands.

604 F.2d 200

203 U.S.P.Q. 161, 5 Media L. Rep. 1814

(Cite as: 604 F.2d 200)

**DALLAS COWBOYS CHEERLEADERS,
INC., Plaintiff-Appellee,**

v.

**PUSSYCAT CINEMA, LTD. and Michael
Zaffarano, Defendants-Appellants.**

No. 950, Docket 79-7179.

United States Court of Appeals,
Second Circuit.

Argued April 6, 1979.

Decided Aug. 14, 1979.

Plaintiff in this trademark infringement action is Dallas Cowboys Cheerleaders, Inc., a wholly owned subsidiary of the Dallas Cowboys Football Club, Inc. Plaintiff employs thirty-six women who perform dance and cheerleading routines at Dallas Cowboys football games. The cheerleaders have appeared frequently on television programs and make commercial appearances at such public events as sporting goods shows and shopping center openings. In addition, plaintiff licenses others to manufacture and distribute posters, calendars, T-shirts, and the like depicting Dallas Cowboys Cheerleaders in their uniforms. These products have enjoyed nationwide commercial success, due largely to the national exposure the Dallas Cowboys Cheerleaders have received through the news and entertainment media. Moreover, plaintiff has expended large amounts of money to acquaint the public with its uniformed cheerleaders and earns substantial revenue from their commercial appearances.

At all the football games and public events where plaintiff's cheerleaders appear and on all commercial items depicting the cheerleaders, the women are clad in plaintiff's distinctive uniform. The familiar outfit consists of white vinyl boots, white shorts, a white belt decorated with blue stars, a blue bolero blouse, and a white vest decorated with three blue stars on each side of the front and a white fringe around the bottom. In this action

plaintiff asserts that it has a trademark in its uniform and that defendants have infringed and diluted that trademark in advertising and exhibiting "Debbie Does Dallas."

Pussycat Cinema, Ltd., is a New York corporation which owns a movie theatre in New York City; Zaffarano is the corporation's sole stockholder. In November 1978 the Pussycat Cinema began to show "Debbie Does Dallas," a gross and revolting sex film whose plot, to the extent that there is one, involves a cheerleader at a fictional high school, Debbie, who has been selected to become a "Texas Cowgirl." [FN1] In order to *203 raise enough money to send Debbie, and eventually the entire squad, to Dallas, the cheerleaders perform sexual services for a fee. The movie consists largely of a series of scenes graphically depicting the sexual escapades of the "actors". In the movie's final scene Debbie dons a uniform strikingly similar to that worn by the Dallas Cowboys Cheerleaders and for approximately twelve minutes of film footage engages in various sex acts while clad or partially clad in the uniform. Defendants advertised the movie with marquee posters depicting Debbie in the allegedly infringing uniform and containing such captions as "Starring Ex Dallas Cowgirl Cheerleader Bambi Woods" and "You'll do more than cheer for this X Dallas Cheerleader." [FN2] Similar advertisements appeared in the newspapers.

FN1. The official appellation of plaintiff's cheerleaders is "Dallas Cowboys Cheerleaders", but the district court found that plaintiff also has a trademark in the names "Dallas Cowgirls" and "Texas Cowgirls" which have been made popular by the media.

FN2. Bambi Woods, the woman who played the role of Debbie, is not now and never has been a Dallas Cowboys Cheerleader.

Plaintiff brought this action alleging trademark infringement under section 43(a) of the

Lanham Act (15 U.S.C. s 1125(a)), unfair competition, and dilution of trademark in violation of section 368-d of the New York General Business Law. The district court, in its oral opinion of February 13, 1979, found that "plaintiff ha(d) succeeded in proving by overwhelming evidence the merits of each one of its contentions." Defendants challenge the validity of all three claims.

[1][2][3][4] A preliminary issue raised by defendants is whether plaintiff has a valid trademark in its cheerleader uniform.[FN3] Defendants argue that the uniform is a purely functional item necessary for the performance of cheerleading routines and that it therefore is not capable of becoming a trademark. We do not quarrel with defendants' assertion that a purely functional item may not become a trademark. See *In re Honeywell, Inc.*, 532 F.2d 180, 182-83 (C.C.P.A.1976). However, we do not agree that all of characteristics of plaintiff's uniform serve only a functional purpose or that, because an item is in part incidentally functional, it is necessarily precluded from being designated as a trademark. Plaintiff does not claim a trademark in all clothing designed and fitted to allow free movement while performing cheerleading routines, but claims a trademark in the particular combination of colors and collocation of decorations that distinguish plaintiff's uniform from those of other squads.[FN4] Cf. *Socony Vacuum Oil Co. v. Rosen*, 108 F.2d 632, 636 (6th Cir. 1940); *John Wright, Inc. v. Casper Corp.*, 419 F.Supp. 292, 317 (E.D.Pa.1976). It is well established that, if the design of an item is nonfunctional and has acquired secondary meaning,[FN5] the design may become a trademark even if the item itself is functional. *Ives Laboratories, Inc. v. Darby Drug Co.*, 601 F.2d 631, 642 (2d Cir. 1979); *Truck Equipment Service Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1215 (8th Cir.), Cert. denied, 429 U.S. 861, 97 S.Ct. 164, 50 L.Ed.2d 139 (1976). Moreover, when a feature of the construction of the item is arbitrary, the feature may become a trademark even though it serves a useful purpose. In ***204** *re Deister Concentrator Co.*, 289 F.2d 496, 506, 48 C.C.P.A. 952 (1961); *Fotomat Corp. v.*

Cochran, 437 F.Supp. 1231 (D.Kan.1977). Thus, the fact that an item serves or performs a function does not mean that it may not at the same time be capable of indicating sponsorship or origin, particularly where the decorative aspects of the item are nonfunctional. See *In re Penthouse International Ltd.*, 565 F.2d 679, 681 (Cust. & Pat.App.1977). See also *In re World's Finest Chocolate, Inc.*, 474 F.2d 1012 (Cust. & Pat.App.1973). In the instant case the combination of the white boots, white shorts, blue blouse, and white star- studded vest and belt is an arbitrary design which makes the otherwise functional uniform trademarkable. [FN6]

FN3. At present plaintiff does not have a registered trademark or service mark in its uniform. However, plaintiff still may prevail if it establishes that it has a common law trademark or service mark. See *Boston Professional Hockey Association v. Dallas Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1010 (5th Cir.), Cert. denied, 423 U.S. 991, 96 S.Ct. 408, 46 L.Ed.2d 312 (1975); *New York General Business Law s 368- d*. Whether plaintiff's uniform is considered as a trademark or a service mark, the standards for determining infringement are the same. *West &Co. v. Arica Institute, Inc.*, 557 F.2d 338, 340 n. 1 (2d Cir. 1977).

FN4. Plaintiff's design imparts a western flavor appropriate for a Texas cheerleading squad. The design is in no way essential to the performance of cheerleading routines and to that extent is not a functional aspect of the uniform.

FN5. Secondary meaning is "(t)he power of a name or other configuration to symbolize a particular business, product or company" *Ideal Toy Corp. v. Kenner Products Division of General Mills Fun Group, Inc.*, 443 F.Supp. 291, 305 n. 14 (S.D.N.Y.1977). There is no dispute in

this case that plaintiff's uniform is universally recognized as the symbol of the Dallas Cowboys Cheerleaders.

FN6. Although color alone is not capable of becoming a trademark, a combination of colors together with a distinctive arbitrary design may serve as a trademark. *Quabaug Rubber Co. v. Fabiano Shoe Co.*, 567 F.2d 154, 161 (1st Cir. 1977).

Having found that plaintiff has a trademark in its uniform, we must determine whether the depiction of the uniform in "Debbie Does Dallas" violates that trademark. The district court found that the uniform worn in the movie and shown on the marquee closely resembled plaintiff's uniform and that the public was likely to identify it as plaintiff's uniform. Our own comparison of the two uniforms convinces us that the district court was correct,[FN7] and defendants do not seriously contend that the uniform shown in the movie is not almost identical with plaintiff's.

[8][9][10] Defendants assert that the copyright doctrine of "fair use" should be held applicable to trademark infringement actions and that we should apply the doctrine to sanction their use of a replica of plaintiff's uniform. Fair use is "a privilege in others than the owner of a copyright to use the copyrighted material in a reasonable manner without his consent" *Rosemont Enterprises, Inc. v. Random House, Inc.*, 366 F.2d 303, 306 (2d Cir. 1966) (quoting *Ball, The Law of Copyright and Literary Property* 260 (1944)), *Cert. denied*, 385 U.S. 1009, 87 S.Ct. 714, 17 L.Ed.2d 546 (1967). The fair use doctrine allows adjustments of conflicts between the first amendment and the copyright laws, See *Wainwright Securities Inc. v. Wall Street Transcript Corp.*, 558 F.2d 91, 95 (2d Cir. 1977), *Cert. denied*, 434 U.S. 1014, 98 S.Ct. 730, 54 L.Ed.2d 759 (1978), and is designed primarily to balance "the exclusive rights of a copyright holder with the public's interest in dissemination of information affecting areas of universal concern, such as art, science and industry." *Id.* at 94. It is unlikely that the fair

use doctrine is applicable to trademark infringements; [FN9] however, we need not reach that question. Although, as defendants assert, the doctrine of fair use permits limited copyright infringement for purposes of parody, See *Berlin v. E. C. Publications, Inc.*, 329 F.2d 541 (2d Cir. 1964), *Cert. denied*, 379 U.S. 822, 85 S.Ct. 46, 13 L.Ed.2d 33 (1965), defendants' use of plaintiff's uniform hardly qualifies as parody or any other form of fair use. See *Walt Disney Productions v. Mature Pictures Corp.*, 389 F.Supp. 1397, 1398 (S.D.N.Y.1975).

FN9. Because the primary purpose of the trademark laws is to protect the public from confusion, See *W. E. Basset Co. v. Revlon, Inc.*, 354 F.2d 868, 871 (2d Cir. 1966), it would be somewhat anomalous to hold that the confusing use of another's trademark is "fair use". See also *Truck Equipment Service Co. v. Fruehauf Corp.*, *supra*, 536 F.2d at 1215.

[11][12] Nor does any other first amendment doctrine protect defendants' infringement of plaintiff's trademark. That defendants' movie may convey a barely discernible message [FN10] does not entitle them to appropriate plaintiff's trademark in the process of conveying that message. See *Interbank Card Association v. Simms*, 431 F.Supp. 131 (M.D.N.C.1977); *Edgar Rice Burroughs, Inc. v. Manns Theatres*, 195 U.S.P.Q. 159 (C.D.Cal.1976); *Coca-Cola Co. v. Gemini Rising, Inc.*, *supra*, 346 F.Supp. at 1191. Plaintiff's trademark is in the nature of a property right, See *Hanover Milling Co. v. Metcalf*, 240 U.S. 403, 413, 36 S.Ct. 357, 60 L.Ed. 713 (1915); *Alfred Dunhill of London, Inc. v. Dunhill Tailored Clothes, Inc.*, 293 F.2d 685, 692, 49 C.C.P.A. 730 (1961), *Cert. denied*, 369 U.S. 864, 82 S.Ct. 1030, 8 L.Ed.2d 84 (1962), and as such it need not "yield to the exercise of First Amendment rights under circumstances where adequate alternative avenues of communication exist." *Lloyd Corp. v. Tanner*, 407 U.S. 551, 567, 92 S.Ct. 2219, 2228, 33 L.Ed.2d 31 (1972). Because there are numerous ways in which

defendants may comment on "sexuality in athletics" without infringing plaintiff's trademark, the district court did not encroach upon their first amendment rights in granting a preliminary injunction. See *Walt Disney Productions v. Air Pirates*, 581 F.2d 751, 758-59 (9th Cir. 1978); *Reddy Communications, Inc. v. Environmental Action Foundation*, 199 U.S.P.Q. 630, 634 (D.D.C.1977).

FN10. The question whether "Debbie Does Dallas" is obscene is not before us.

[13][14] For similar reasons, the preliminary injunction did not constitute an unconstitutional "prior restraint". This is not a case of government censorship, but a private plaintiff's attempt to protect its property rights. The propriety of a preliminary injunction where such relief is sought is so clear that courts have often issued an injunction without even mentioning the first amendment. See, e. g., *Gilliam v. American Broadcasting Cos.*, 538 F.2d 14 (2d Cir. 1976); *Edgar Rice Burroughs, Inc. v. Manns Theatres*, supra, 195 U.S.P.Q. 159. The prohibition of the Lanham Act is content neutral, Cf. *Schacht v. United States*, 398 U.S. 58, 90 S.Ct. 1555, 26 L.Ed.2d 44 (1970), and therefore does not arouse the fears that trigger the application of constitutional "prior restraint" principles.

(Cite as: 989 F.2d 1512)

Vanna WHITE, Plaintiff-Appellant,
v.
SAMSUNG ELECTRONICS AMERICA,
INC.; David Deutsch Associates,
Defendants-
Appellees.

No. 90-55840.

United States Court of Appeals,
Ninth Circuit.

March 18, 1993.

Prior report: 971 F.2d 1395.

Before GOODWIN, PREGERSON and
ALARCON, Circuit Judges.

The panel has voted unanimously to deny the petition for rehearing. Circuit Judge Pregerson has voted to reject the suggestion for rehearing en banc, and Circuit Judge Goodwin so recommends. Circuit Judge Alarcon has voted to accept the suggestion for rehearing en banc.

The full court has been advised of the suggestion for rehearing en banc. An active judge requested a vote on whether to rehear the matter en banc. The matter failed to receive a majority of the votes of the nonrecused active judges in favor of en banc consideration. Fed.R.App.P. 35.

The petition for rehearing is DENIED and the suggestion for rehearing en banc is REJECTED.

KOZINSKI, Circuit Judge, with whom Circuit Judges O'SCANNLAIN and KLEINFELD join, dissenting from the order rejecting the suggestion for rehearing en banc.

I

Saddam Hussein wants to keep advertisers from using his picture in unflattering contexts. [FN1] Clint Eastwood doesn't want tabloids to write about him. [FN2] Rudolf Valentino's heirs want to control his film biography. [FN3] The Girl Scouts don't want their image soiled by association with certain activities. [FN4]

George Lucas wants to keep Strategic Defense Initiative fans from calling it "Star Wars." [FN5] Pepsico doesn't want singers to use the word "Pepsi" in their songs. [FN6] Guy Lombardo wants an exclusive *1513 property right to ads that show big bands playing on New Year's Eve. [FN7] Uri Geller thinks he should be paid for ads showing psychics bending metal through telekinesis. [FN8] Paul Prudhomme, that household name, thinks the same about ads featuring corpulent bearded chefs. [FN9] And scads of copyright holders see purple when their creations are made fun of. [FN10]

FN1. See Eben Shapiro, Rising Caution on Using Celebrity Images, N.Y. Times, Nov. 4, 1992, at D20 (Iraqi diplomat objects on right of publicity grounds to ad containing Hussein's picture and caption "History has shown what happens when one source controls all the information").

FN2. Eastwood v. Superior Court, 149 Cal.App.3d 409, 198 Cal.Rptr. 342 (1983).

FN3. Guglielmi v. Spelling-Goldberg Prods., 25 Cal.3d 860, 160 Cal.Rptr. 352, 603 P.2d 454 (1979) (Rudolph Valentino); see also Maheu v. CBS, Inc., 201 Cal.App.3d 662, 668, 247 Cal.Rptr. 304 (1988) (aide to Howard Hughes). Cf. Frank Gannon, Vanna Karenina, in Vanna Karenina and Other Reflections (1988) (A humorous short story with a tragic ending. "She thought of the first day she had met VR__SKY. How foolish she had been. How could she love a man who wouldn't even tell her all the letters in his name?").

FN4. Girl Scouts v. Personality Posters Mfg., 304 F.Supp. 1228 (S.D.N.Y.1969) (poster of a pregnant girl in a Girl Scout uniform with the caption "Be Prepared").

FN5. Lucasfilm Ltd. v. High Frontier, 622 F.Supp. 931 (D.D.C.1985).

FN6. Pepsico Inc. claimed the lyrics and packaging of grunge rocker Tad Doyle's "Jack Pepsi" song were "offensive to [it] and [...] likely to offend [its] customers," in part because they "associate [Pepsico] and its Pepsi marks with intoxication and drunk driving." Deborah Russell, *Doyle Leaves Pepsi Thirsty for Compensation*, *Billboard*, June 15, 1991, at 43. Conversely, the Hell's Angels recently sued Marvel Comics to keep it from publishing a comic book called "Hell's Angel," starring a character of the same name. Marvel settled by paying \$35,000 to charity and promising never to use the name "Hell's Angel" again in connection with any of its publications. *Marvel, Hell's Angels Settle Trademark Suit*, *L.A. Daily J.*, Feb. 2, 1993, § II, at 1.

Trademarks are often reflected in the mirror of our popular culture. See Truman Capote, *Breakfast at Tiffany's* (1958); Kurt Vonnegut, Jr., *Breakfast of Champions* (1973); Tom Wolfe, *The Electric Kool-Aid Acid Test* (1968) (which, incidentally, includes a chapter on the Hell's Angels); Larry Niven, *Man of Steel*, *Woman of Kleenex*, in *All the Myriad Ways* (1971); *Looking for Mr. Goodbar* (1977); *The Coca-Cola Kid* (1985) (using Coca-Cola as a metaphor for American commercialism); *The Kentucky Fried Movie* (1977); *Harley Davidson and the Marlboro Man* (1991); *The WonderYears* (ABC 1988-present) ("Wonder Years" was a slogan of Wonder Bread); Tim Rice & Andrew Lloyd Webber, *Joseph and the Amazing Technicolor Dream Coat* (musical).

Hear Janis Joplin, *Mercedes Benz*, on *Pearl* (CBS 1971); Paul Simon, *Kodachrome*, on *There Goes Rhymin' Simon* (Warner 1973); Leonard Cohen, *Chelsea Hotel*, on *The Best of Leonard Cohen* (CBS 1975); Bruce Springsteen, *Cadillac Ranch*, on *The River* (CBS 1980); Prince, *Little Red Corvette*, on 1999 (Warner 1982);

dada, *Dizz Knee Land*, on *Puzzle* (IRS 1992) ("I just robbed a grocery store--I'm going to Disneyland / I just flipped off President George--I'm going to Disneyland"); Monty Python, *Spam*, on *The Final Rip Off* (Virgin 1988); Roy Clark, *Thank God and Greyhound [You're Gone]*, on *Roy Clark's Greatest Hits Volume I* (MCA 1979); Mel Tillis, *Coca-Cola Cowboy*, on *The Very Best of* (MCA 1981) ("You're just a Coca-Cola cowboy / You've got an Eastwood smile and Robert Redford hair ...").

Dance to Talking Heads, *Popular Favorites 1976-92: Sand in the Vaseline* (Sire 1992); *Talking Heads*, *Popsicle*, on *id. Admire Andy Warhol*, *Campbell's Soup Can*. Cf. *REO Speedwagon*, *38 Special*, and *Jello Biafra of the Dead Kennedys*.

The creators of some of these works might have gotten permission from the trademark owners, though it's unlikely Kool-Aid relished being connected with LSD, Hershey with homicidal maniacs, Disney with armed robbers, or Coca-Cola with cultural imperialism. Certainly no free society can demand that artists get such permission.

FN7. *Lombardo v. Doyle, Dane & Bernbach, Inc.*, 58 A.D.2d 620, 396 N.Y.S.2d 661 (1977).

FN8. *Geller v. Fallon McElligott*, No. 90-Civ-2839 (S.D.N.Y. July 22, 1991) (involving a Timex ad).

FN9. *Prudhomme v. Procter & Gamble Co.*, 800 F.Supp. 390 (E.D.La.1992).

FN10. E.g., *Acuff-Rose Music, Inc. v. Campbell*, 972 F.2d 1429 (6th Cir.1992); *Cliffs Notes v. Bantam Doubleday Dell Publishing Group, Inc.*, 886 F.2d 490 (2d Cir.1989); *Fisher v. Dees*, 794 F.2d 432 (9th Cir.1986); *MCA, Inc. v. Wilson*, 677 F.2d 180 (2d Cir.1981); *Elsmere Music, Inc. v. NBC*, 623 F.2d 252 (2d Cir.1980);

Walt Disney Prods. v. The Air Pirates, 581 F.2d 751 (9th Cir.1978); Berlin v. E.C. Publications, Inc., 329 F.2d 541 (2d Cir.1964); Lowenfels v. Nathan, 2 F.Supp. 73 (S.D.N.Y.1932).

Something very dangerous is going on here. Private property, including intellectual property, is essential to our way of life. It provides an incentive for investment and innovation; it stimulates the flourishing of our culture; it protects the moral entitlements of people to the fruits of their labors. But reducing too much to private property can be bad medicine. Private land, for instance, is far more useful if separated from other private land by public streets, roads and highways. Public parks, utility rights-of-way and sewers reduce the amount of land in private hands, but vastly enhance the value of the property that remains.

So too it is with intellectual property. Overprotecting intellectual property is as harmful as underprotecting it. Creativity is impossible without a rich public domain. Nothing today, likely nothing since we tamed fire, is genuinely new: Culture, like science and technology, grows by accretion, each new creator building on the works of those who came before. Overprotection stifles the very creative forces it's supposed to nurture. [FN11]

FN11. See Wendy J. Gordon, A Property Right in Self Expression: Equality and Individualism in the Natural Law of Intellectual Property, 102 Yale L.J. 1533, 1556-57 (1993).

***1514** The panel's opinion is a classic case of overprotection. Concerned about what it sees as a wrong done to Vanna White, the panel majority erects a property right of remarkable and dangerous breadth: Under the majority's opinion, it's now a tort for advertisers to remind the public of a celebrity. Not to use a celebrity's name, voice, signature or likeness; not to imply the celebrity endorses a product; but simply to evoke the celebrity's image in the public's mind. This Orwellian notion withdraws far more from the

public domain than prudence and common sense allow. It conflicts with the Copyright Act and the Copyright Clause. It raises serious First Amendment problems. It's bad law, and it deserves a long, hard second look.

II

Samsung ran an ad campaign promoting its consumer electronics. Each ad depicted a Samsung product and a humorous prediction: One showed a raw steak with the caption "Revealed to be health food. 2010 A.D." Another showed Morton Downey, Jr. in front of an American flag with the caption "Presidential candidate. 2008 A.D." [FN12] The ads were meant to convey--humorously--that Samsung products would still be in use twenty years from now.

FN12. I had never heard of Morton Downey, Jr., but I'm told he's sort of like Rush Limbaugh, but not as shy.

The ad that spawned this litigation starred a robot dressed in a wig, gown and jewelry reminiscent of Vanna White's hair and dress; the robot was posed next to a Wheel-of-Fortune-like game board. See Appendix. The caption read "Longest-running game show. 2012 A.D." The gag here, I take it, was that Samsung would still be around when White had been replaced by a robot.

Perhaps failing to see the humor, White sued, alleging Samsung infringed her right of publicity by "appropriating" her "identity." Under California law, White has the exclusive right to use her name, likeness, signature and voice for commercial purposes. Cal.Civ.Code § 3344(a); Eastwood v. Superior Court, 149 Cal.App.3d 409, 417, 198 Cal.Rptr. 342, 347 (1983). But Samsung didn't use her name, voice or signature, and it certainly didn't use her likeness. The ad just wouldn't have been funny had it depicted White or someone who resembled her--the whole joke was that the game show host(ess) was a robot, not a real person. No one seeing the ad could have thought this was supposed to be White in 2012.

The district judge quite reasonably held that, because Samsung didn't use White's name, likeness, voice or signature, it didn't violate her right of publicity. 971 F.2d at 1396-97. Not so, says the panel majority: The California right of publicity can't possibly be limited to name and likeness. If it were, the majority reasons, a "clever advertising strategist" could avoid using White's name or likeness but nevertheless remind people of her with impunity, "effectively eviscerat[ing]" her rights. To prevent this "evisceration," the panel majority holds that the right of publicity must extend beyond name and likeness, to any "appropriation" of White's "identity"-- anything that "evoke[s]" her personality. *Id.* at 1398-99.

III

But what does "evisceration" mean in intellectual property law? Intellectual property rights aren't like some constitutional rights, absolute guarantees protected against all kinds of interference, subtle as well as blatant. [FN13] They cast no penumbras, emit no emanations: The very point of intellectual property laws is that they protect only against certain specific kinds of appropriation. I can't publish unauthorized copies of, say, *Presumed Innocent*; I can't make a movie out of it. But I'm ***1515** perfectly free to write a book about an idealistic young prosecutor on trial for a crime he didn't commit. [FN14] So what if I got the idea from *Presumed Innocent*? So what if it reminds readers of the original? Have I "eviscerated" Scott Turow's intellectual property rights? Certainly not. All creators draw in part on the work of those who came before, referring to it, building on it, poking fun at it; we call this creativity, not piracy. [FN15]

FN13. Cf., e.g., *Guinn v. United States*, 238 U.S. 347, 364-65, 35 S.Ct. 926, 931, 59 L.Ed. 1340 (1915) (striking down grandfather clause that was a clear attempt to evade the Fifteenth Amendment).

FN14. It would be called "Burden of Going Forward with the Evidence," and the hero would ultimately be saved by

his lawyer's adept use of Fed.R.Evid. 301.

FN15. In the words of Sir Isaac Newton, "[i]f I have seen further it is by standing on [the shoulders] of Giants." Letter to Robert Hooke, Feb. 5, 1675/1676.

Newton himself may have borrowed this phrase from Bernard of Chartres, who said something similar in the early twelfth century. Bernard in turn may have snatched it from Priscian, a sixth century grammarian. See *Lotus Dev. Corp. v. Paperback Software Int'l*, 740 F.Supp. 37, 77 n. 3 (D.Mass.1990).

The majority isn't, in fact, preventing the "evisceration" of Vanna White's existing rights; it's creating a new and much broader property right, a right unknown in California law. [FN16] It's replacing the existing balance between the interests of the celebrity and those of the public by a different balance, one substantially more favorable to the celebrity. Instead of having an exclusive right in her name, likeness, signature or voice, every famous person now has an exclusive right to anything that reminds the viewer of her. After all, that's all Samsung did: It used an inanimate object to remind people of White, to "evoke [her identity]." 971 F.2d at 1399. [FN17]

FN16. In fact, in the one California case raising the issue, the three state Supreme Court Justices who discussed this theory expressed serious doubts about it. *Guglielmi v. Spelling-Goldberg Prods.*, 25 Cal.3d 860, 864 n. 5, 160 Cal.Rptr. 352, 355 n. 5, 603 P.2d 454, 457 n. 5 (1979) (Bird, C.J., concurring) (expressing skepticism about finding a property right to a celebrity's "personality" because it is "difficult to discern any easily applied definition for this amorphous term").

Neither have we previously interpreted California law to cover pure "identity." *Midler v. Ford Motor Co.*, 849 F.2d 460 (9th Cir.1988), and *Waits v. Frito-Lay, Inc.*, 978 F.2d 1093 (9th Cir.1992),

dealt with appropriation of a celebrity's voice. See *id.* at 1100-01 (imitation of singing style, rather than voice, doesn't violate the right of publicity).

Motschenbacher v. R.J. Reynolds Tobacco Co., 498 F.2d 821 (9th Cir.1974), stressed that, though the plaintiff's likeness wasn't directly recognizable by itself, the surrounding circumstances would have made viewers think the likeness was the plaintiff's. *Id.* at 827; see also *Moore v. Regents of the Univ. of Cal.*, 51 Cal.3d 120, 138, 271 Cal.Rptr. 146, 157, 793 P.2d 479, 490 (1990) (construing *Motschenbacher* as "hold[ing] that every person has a proprietary interest in his own likeness").

FN17. Some viewers might have inferred White was endorsing the product, but that's a different story. The right of publicity isn't aimed at or limited to false endorsements, *Eastwood v. Superior Court*, 149 Cal.App.3d 409, 419-20, 198 Cal.Rptr. 342, 348 (1983); that's what the Lanham Act is for.

Note also that the majority's rule applies even to advertisements that unintentionally remind people of someone. California law is crystal clear that the common-law right of publicity may be violated even by unintentional appropriations. *Id.* at 417 n. 6, 198 Cal.Rptr. at 346 n. 6; *Fairfield v. American Photocopy Equipment Co.*, 138 Cal.App.2d 82, 87, 291 P.2d 194 (1955).

Consider how sweeping this new right is. What is it about the ad that makes people think of White? It's not the robot's wig, clothes or jewelry; there must be ten million blond women (many of them quasi-famous) who wear dresses and jewelry like White's. It's that the robot is posed near the "Wheel of Fortune" game board. Remove the game board from the ad, and no one would think of Vanna White. See Appendix. But once you

include the game board, anybody standing beside it--a brunette woman, a man wearing women's clothes, a monkey in a wig and gown--would evoke White's image, precisely the way the robot did. It's the "Wheel of Fortune" set, not the robot's face or dress or jewelry that evokes White's image. The panel is giving White an exclusive right not in what she looks like or who she is, but in what she does for a living. [FN18]

FN18. Once the right of publicity is extended beyond specific physical characteristics, this will become a recurring problem: Outside name, likeness and voice, the things that most reliably remind the public of celebrities are the actions or roles they're famous for. A commercial with an astronaut setting foot on the moon would evoke the image of Neil Armstrong. Any masked man on horseback would remind people (over a certain age) of Clayton Moore. And any number of songs--"My Way," "Yellow Submarine," "Like a Virgin," "Beat It," "Michael, Row the Boat Ashore," to name only a few--instantly evoke an image of the person or group who made them famous, regardless of who is singing.

See also *Carlos V. Lozano, West Loses Lawsuit over Batman TV Commercial*, L.A. Times, Jan. 18, 1990, at B3 (Adam West sues over Batman-like character in commercial); *Nurmi v. Peterson*, 10 U.S.P.Q.2d 1775, 1989 WL 407484 (C.D.Cal.1989) (1950s TV movie hostess "Vampira" sues 1980s TV hostess "Elvira"); text accompanying notes 7-8 (lawsuits brought by Guy Lombardo, claiming big bands playing at New Year's Eve parties remind people of him, and by Uri Geller, claiming psychics who can bend metal remind people of him). Cf. *Motschenbacher*, where the claim was that viewers would think plaintiff was actually in the commercial, and not

merely that the commercial reminded people of him.

***1516** This is entirely the wrong place to strike the balance. Intellectual property rights aren't free: They're imposed at the expense of future creators and of the public at large. Where would we be if Charles Lindbergh had an exclusive right in the concept of a heroic solo aviator? If Arthur Conan Doyle had gotten a copyright in the idea of the detective story, or Albert Einstein had patented the theory of relativity? If every author and celebrity had been given the right to keep people from mocking them or their work? Surely this would have made the world poorer, not richer, culturally as well as economically. [FN19]

FN19. See generally Gordon, *supra* note 11; see also Michael Madow, *Private Ownership of Public Image: Popular Culture and Publicity Rights*, 81 Cal.L.Rev. 125, 201-03 (1993) (an excellent discussion).

This is why intellectual property law is full of careful balances between what's set aside for the owner and what's left in the public domain for the rest of us: The relatively short life of patents; the longer, but finite, life of copyrights; copyright's idea-expression dichotomy; the fair use doctrine; the prohibition on copyrighting facts; the compulsory license of television broadcasts and musical compositions; federal preemption of overbroad state intellectual property laws; the nominative use doctrine in trademark law; the right to make soundalike recordings. [FN20] All of these diminish an intellectual property owner's rights. All let the public use something created by someone else. But all are necessary to maintain a free environment in which creative genius can flourish.

FN20. See 35 U.S.C. § 154 (duration of patent); 17 U.S.C. §§ 302- 305 (duration of copyright); 17 U.S.C. § 102(b) (idea-expression dichotomy); 17 U.S.C. § 107 (fair use); *Feist Pubs., Inc. v. Rural Tel. Serv. Co.*, 499

U.S. 340, ---, 111 S.Ct. 1282, 1288, 113 L.Ed.2d 358 (1991) (no copyrighting facts); 17 U.S.C. §§ 115, 119(b) (compulsory licenses); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 109 S.Ct. 971, 103 L.Ed.2d 118 (1989) (federal preemption); *New Kids on the Block v. News America Publishing, Inc.*, 971 F.2d 302, 306-308 (9th Cir.1992) (nominative use); 17 U.S.C. § 114(b) (soundalikes); accord *G.S. Rasmussen & Assocs. v. Kalitta Flying Serv., Inc.*, 958 F.2d 896, 900 n. 7 (9th Cir.1992); *Daniel A. Saunders*, Comment, *Copyright Law's Broken Rear Window*, 80 Cal.L.Rev. 179, 204-05 (1992). But see *Midler v. Ford Motor Co.*, 849 F.2d 460 (9th Cir.1988).

The intellectual property right created by the panel here has none of these essential limitations: No fair use exception; no right to parody; no idea-expression dichotomy. It impoverishes the public domain, to the detriment of future creators and the public at large. Instead of well-defined, limited characteristics such as name, likeness or voice, advertisers will now have to cope with vague claims of "appropriation of identity," claims often made by people with a wholly exaggerated sense of their own fame and significance. See pp. 1512-13 & notes 1-10 *supra*. Future Vanna Whites might not get the chance to create their personae, because their employers may fear some celebrity will claim the persona is too similar to her own. [FN21] The public will be robbed of parodies of celebrities, and ***1517** our culture will be deprived of the valuable safety valve that parody and mockery create.

FN21. If Christian Slater, star of "Heathers," "Pump up the Volume," "Kuffs," and "Untamed Heart"--and alleged Jack Nicholson clone--appears in a commercial, can Nicholson sue? Of 54 stories on LEXIS that talk about Christian Slater, 26 talk about Slater's alleged similarities to Nicholson. Apparently it's his nasal wisecracks

and killer smiles, St. Petersburg Times, Jan. 10, 1992, at 13, his eyebrows, Ottawa Citizen, Jan. 10, 1992, at E2, his sneers, Boston Globe, July 26, 1991, at 37, his menacing presence, USA Today, June 26, 1991, at 1D, and his sing-song voice, Gannett News Service, Aug. 27, 1990 (or, some say, his insinuating drawl, L.A. Times, Aug. 22, 1990, at F5). That's a whole lot more than White and the robot had in common.

Moreover, consider the moral dimension, about which the panel majority seems to have gotten so exercised. Saying Samsung "appropriated" something of White's begs the question: Should White have the exclusive right to something as broad and amorphous as her "identity"? Samsung's ad didn't simply copy White's schtick--like all parody, it created something new. [FN22] True, Samsung did it to make money, but White does whatever she does to make money, too; the majority talks of "the difference between fun and profit," 971 F.2d at 1401, but in the entertainment industry fun is profit. Why is Vanna White's right to exclusive for-profit use of her persona--a persona that might not even be her own creation, but that of a writer, director or producer--superior to Samsung's right to profit by creating its own inventions? Why should she have such absolute rights to control the conduct of others, unlimited by the idea-expression dichotomy or by the fair use doctrine?

FN22. Cf. *New Kids on the Block v. News America Publishing, Inc.*, 971 F.2d 302, 307 n. 6 (9th Cir.1992) ("Where the infringement is small in relation to the new work created, the fair user is profiting largely from his own creative efforts rather than free-riding on another's work.").

To paraphrase only slightly *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, ---- - ----, 111 S.Ct. 1282, 1289-90, 113 L.Ed.2d 358 (1991), it may seem unfair that much of the fruit of a creator's labor may be used by others without

compensation. But this is not some unforeseen byproduct of our intellectual property system; it is the system's very essence. Intellectual property law assures authors the right to their original expression, but encourages others to build freely on the ideas that underlie it. This result is neither unfair nor unfortunate: It is the means by which intellectual property law advances the progress of science and art. We give authors certain exclusive rights, but in exchange we get a richer public domain. The majority ignores this wise teaching, and all of us are the poorer for it. [FN23]

FN23. The majority opinion has already earned some well-deserved criticisms on this score. Stephen R. Barnett, *In Hollywood's Wheel of Fortune, Free Speech Loses a Turn*, Wall St. J., Sept. 28, 1992, at A14; Stephen R. Barnett, *Wheel of Misfortune for Advertisers: Ninth Circuit Misreads the Law to Protect Vanna White's Image*, L.A. Daily J., Oct. 5, 1992, at 6; Felix H. Kent, *California Court Expands Celebrities' Rights*, N.Y.L.J., Oct. 30, 1992, at 3 ("To speak of the 'evisceration' of such a questionable common law right in a case that has probably gone the farthest of any case in any court in the United States of America is more than difficult to comprehend"); Shapiro, *supra* note 1 ("A fat chef? A blond robot in an evening gown? How far will this go?" (citing Douglas J. Wood, an advertising lawyer)). See also Mark Alan Stamaty, *Washington, Wash. Post*, Apr. 5, 1993, at A21.

IV

The panel, however, does more than misinterpret California law: By refusing to recognize a parody exception to the right of publicity, the panel directly contradicts the federal Copyright Act. Samsung didn't merely parody Vanna White. It parodied Vanna White appearing in "Wheel of Fortune," a copyrighted television show, and parodies of

copyrighted works are governed by federal copyright law.

Copyright law specifically gives the world at large the right to make "fair use" parodies, parodies that don't borrow too much of the original. *Fisher v. Dees*, 794 F.2d 432, 435 (9th Cir.1986). Federal copyright law also gives the copyright owner the exclusive right to create (or license the creation of) derivative works, which include parodies that borrow too much to qualify as "fair use." See *Acuff-Rose Music, Inc. v. Campbell*, 972 F.2d 1429, 1434-35 (6th Cir.1992). [FN24] When Mel Brooks, for instance, decided to parody *Star Wars*, he *1518 had two options: He could have stuck with his fair use rights under 17 U.S.C. § 107, or he could have gotten a license to make a derivative work under 17 U.S.C. § 106(b) from the holder of the *Star Wars* copyright. To be safe, he probably did the latter, but once he did, he was guaranteed a perfect right to make his movie. [FN25]

FN24. How much is too much is a hotly contested question, but one thing is clear: The right to make parodies belongs either to the public at large or to the copyright holder, not to someone who happens to appear in the copyrighted work.

FN25. See *Spaceballs* (1987). Compare *Madonna: Truth or Dare* (1991) with *Medusa: Dare to Be Truthful* (1991); *Loaded Weapon I* (1993) with *Lethal Weapon* (1987); *Young Frankenstein* (1974) with *Bride of Frankenstein* (1935).

The majority's decision decimates this federal scheme. It's impossible to parody a movie or a TV show without at the same time "evok[ing]" the "identit[ies]" of the actors. [FN26] You can't have a mock *Star Wars* without a mock Luke Skywalker, Han Solo and Princess Leia, which in turn means a mock Mark Hamill, Harrison Ford and Carrie Fisher. You can't have a mock *Batman* commercial without a mock *Batman*, which means someone emulating the mannerisms of Adam West or Michael Keaton. See *Carlos V.*

Lozano, *West Loses Lawsuit over Batman TV Commercial*, L.A. Times, Jan. 18, 1990, at B3 (describing Adam West's right of publicity lawsuit over a commercial produced under license from DC Comics, owner of the *Batman* copyright). [FN27] The public's right to make a fair use parody and the copyright owner's right to license a derivative work are useless if the parodist is held hostage by every actor whose "identity" he might need to "appropriate."

FN26. 17 U.S.C. § 301(b)(1) limits the Copyright Act's preemptive sweep to subject matter "fixed in any tangible medium of expression," but White's identity--her look as the hostess of *Wheel of Fortune*--is definitely fixed: It consists entirely of her appearances in a fixed, copyrighted TV show. See *Baltimore Orioles v. Major League Baseball Players Ass'n*, 805 F.2d 663, 675 & n. 22 (7th Cir.1986).

FN27. Cf. *Lugosi v. Universal Pictures*, 25 Cal.3d 813, 827-28, 160 Cal.Rptr. 323, 331-32, 603 P.2d 425, 433-34 (1979) (Mosk, J., concurring) (pointing out that rights in characters should be owned by the copyright holder, not the actor who happens to play them); *Baltimore Orioles*, 805 F.2d at 674-79 (baseball players' right of publicity preempted by copyright law as to telecasts of games).

Our court is in a unique position here. State courts are unlikely to be particularly sensitive to federal preemption, which, after all, is a matter of first concern to the federal courts. The Supreme Court is unlikely to consider the issue because the right of publicity seems so much a matter of state law. That leaves us. It's our responsibility to keep the right of publicity from taking away federally granted rights, either from the public at large or from a copyright owner. We must make sure state law doesn't give the Vanna Whites and Adam Wests of the world a veto over fair use parodies of the shows in which they appear, or over copyright holders' exclusive right to

license derivative works of those shows. In a case where the copyright owner isn't even a party-- where no one has the interests of copyright owners at heart--the majority creates a rule that greatly diminishes the rights of copyright holders in this circuit.

V

The majority's decision also conflicts with the federal copyright system in another, more insidious way. Under the dormant Copyright Clause, state intellectual property laws can stand only so long as they don't "prejudice the interests of other States." *Goldstein v. California*, 412 U.S. 546, 558, 93 S.Ct. 2303, 2310, 37 L.Ed.2d 163 (1973). A state law criminalizing record piracy, for instance, is permissible because citizens of other states would "remain free to copy within their borders those works which may be protected elsewhere." *Id.* But the right of publicity isn't geographically limited. A right of publicity created by one state applies to conduct everywhere, so long as it involves a celebrity domiciled in that state. If a Wyoming resident creates an ad that features a California domiciliary's name or likeness, he'll be subject to California right of publicity law even if he's careful to keep the ad from being shown in California. See *Acme Circus Operating Co. v. Kuperstock*, 711 F.2d 1538, 1540 (11th Cir.1983); *Groucho Marx Prods. v. Day and Night Co.*, 689 F.2d 317, 320 (2d Cir.1982); see ***1519** also *Factors Etc. v. Pro Arts*, 652 F.2d 278, 281 (2d Cir.1981).

The broader and more ill-defined one state's right of publicity, the more it interferes with the legitimate interests of other states. A limited right that applies to unauthorized use of name and likeness probably does not run afoul of the Copyright Clause, but the majority's protection of "identity" is quite another story. Under the majority's approach, any time anybody in the United States--even somebody who lives in a state with a very narrow right of publicity--creates an ad, he takes the risk that it might remind some segment of the public of somebody, perhaps somebody with only a local reputation, somebody the advertiser has never heard of. See note 17 *supra* (right of

publicity is infringed by unintentional appropriations). So you made a commercial in Florida and one of the characters reminds Reno residents of their favorite local TV anchor (a California domiciliary)? Pay up.

This is an intolerable result, as it gives each state far too much control over artists in other states. No California statute, no California court has actually tried to reach this far. It is ironic that it is we who plant this kudzu in the fertile soil of our federal system.

VI

Finally, I can't see how giving White the power to keep others from evoking her image in the public's mind can be squared with the First Amendment. Where does White get this right to control our thoughts? The majority's creation goes way beyond the protection given a trademark or a copyrighted work, or a person's name or likeness. All those things control one particular way of expressing an idea, one way of referring to an object or a person. But not allowing any means of reminding people of someone? That's a speech restriction unparalleled in First Amendment law. [FN28]

FN28. Just compare the majority's holding to the intellectual property laws upheld by the Supreme Court. The Copyright Act is constitutional precisely because of the fair use doctrine and the idea-expression dichotomy, *Harper & Row v. Nation Enterprises*, 471 U.S. 539, 560, 105 S.Ct. 2218, 2230, 85 L.Ed.2d 588 (1985), two features conspicuously absent from the majority's doctrine. The right of publicity at issue in *Zacchini v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562, 576, 97 S.Ct. 2849, 2857-58, 53 L.Ed.2d 965 (1977), was only the right to "broadcast of petitioner's entire performance," not "the unauthorized use of another's name for purposes of trade." *Id.* Even the statute upheld in *San Francisco Arts & Athletics, Inc. v. United States Olympic Comm.*, 483

U.S. 522, 530, 107 S.Ct. 2971, 2977, 97 L.Ed.2d 427 (1987), which gave the USOC sweeping rights to the word "Olympic," didn't purport to protect all expression that reminded people of the Olympics.

What's more, I doubt even a name-and-likeness-only right of publicity can stand without a parody exception. The First Amendment isn't just about religion or politics--it's also about protecting the free development of our national culture. Parody, humor, irreverence are all vital components of the marketplace of ideas. The last thing we need, the last thing the First Amendment will tolerate, is a law that lets public figures keep people from mocking them, or from "evok[ing]" their images in the mind of the public. 971 F.2d at 1399. [FN29]

FN29. The majority's failure to recognize a parody exception to the right of publicity would apply equally to parodies of politicians as of actresses. Consider the case of Wok Fast, a Los Angeles Chinese food delivery service, which put up a billboard with a picture of then-L.A. Police Chief Daryl Gates and the text "When you can't leave the office. Or won't." (This was an allusion to Chief Gates's refusal to retire despite pressure from Mayor Tom Bradley.) Gates forced the restaurant to take the billboard down by threatening a right of publicity lawsuit. Leslie Berger, *He Did Leave the Office--And Now Sign Will Go, Too*, L.A. Times, July 31, 1992, at B2. See also *Samsung Has Seen the Future: Brace Yourself*, Adweek, Oct. 3, 1988, at 26 (ER 72) (Samsung planned another ad that would show a dollar bill with Richard Nixon's face on it and the caption 'Dollar bill, 2025 A.D.,' but Nixon refused permission to use his likeness); *Madow supra* note 19, at 142-46 (discussing other politically and culturally charged parodies).

The majority dismisses the First Amendment issue out of hand because Samsung's ad was commercial speech. *Id.* at 1401 & n. 3. So what? Commercial speech may be less protected by the First Amendment than noncommercial speech, but less protected means protected nonetheless. *Central Hudson Gas & Elec. Corp. v. Public Serv. Comm'n*, 447 U.S. 557, 100 S.Ct. 2343, 65 L.Ed.2d 341 (1980). And there are very good reasons for this. Commercial speech has a profound effect on our culture and our attitudes. Neutral-seeming ads influence people's social and political attitudes, and themselves arouse political controversy. [FN30] "Where's the Beef?" turned from an advertising catchphrase into the only really memorable thing about the 1984 presidential campaign. [FN31] Four years later, Michael Dukakis called George Bush "the Joe Isuzu of American politics." [FN32]

FN30. See, e.g., Bruce Horowitz, *Nike Does It Again; Firm Targets Blacks with a Spin on "Family Values"*, L.A. Times, Aug. 25, 1992, at D1 ("The ad reinforces a stereotype about black fathers" (quoting Lawrence A. Johnson of Howard University)); Gaylord Fields, *Advertising Awards-Show Mania: CEBA Awards Honors Black-Oriented Advertising*, Back Stage, Nov. 17, 1989, at 1 (quoting the Rev. Jesse Jackson as emphasizing the importance of positive black images in advertising); Debra Kaufman, *Quality of Hispanic Production Rising to Meet Clients' Demands*, Back Stage, July 14, 1989, at 1 (Hispanic advertising professional stresses importance of positive Hispanic images in advertising); Marilyn Elias, *Medical Ads Often Are Sexist*, USA Today, May 18, 1989, at 1D ("There's lots of evidence that this kind of ad reinforces stereotypes" (quoting Julie Edell of Duke University)).

FN31. See *Wendy's Kind of Commercial*; "Where's the Beef"

Becomes National Craze, Broadcasting, Mar. 26, 1984, at 57.

FN32. See Gregory Gordon, Candidates Look for Feedback Today, UPI, Sept. 26, 1988.

In our pop culture, where salesmanship must be entertaining and entertainment must sell, the line between the commercial and noncommercial has not merely blurred; it has disappeared. Is the Samsung parody any different from a parody on Saturday Night Live or in Spy Magazine? Both are equally profit-motivated. Both use a celebrity's identity to sell things--one to sell VCRs, the other to sell advertising. Both mock their subjects. Both try to make people laugh. Both add something, perhaps something worthwhile and memorable, perhaps not, to our culture. Both are things that the people being portrayed might dearly want to suppress. See notes 1 & 29 *supra*.

Commercial speech is a significant, valuable part of our national discourse. The Supreme Court has recognized as much, and has insisted that lower courts carefully scrutinize commercial speech restrictions, but the panel totally fails to do this. The panel majority doesn't even purport to apply the Central Hudson test, which the Supreme Court devised specifically for determining whether a commercial speech restriction is valid. [FN33] The majority doesn't ask, as Central Hudson requires, whether the speech restriction is justified by a substantial state interest. It doesn't ask whether the restriction directly advances the interest. It doesn't ask whether the restriction is narrowly tailored to the interest. See *id.* at 566, 100 S.Ct. at 2351. [FN34] These are all things the Supreme Court told us--in no uncertain terms--we must consider; the majority opinion doesn't even mention them. [FN35]

FN33. Its only citation to Central Hudson is a seeming afterthought, buried in a footnote, and standing only for the proposition that commercial speech is less protected under the

First Amendment. See 971 F.2d at 1401 n. 3.

FN34. See also Board of Trustees v. Fox, 492 U.S. 469, 476-81, 109 S.Ct. 3028, 3032-35, 106 L.Ed.2d 388 (1989) (reaffirming "narrowly tailored" requirement, but making clear it's not a "least restrictive means" test).

The government has a freer hand in regulating false or misleading commercial speech, but this isn't such a regulation. Some "appropriations" of a person's "identity" might misleadingly suggest an endorsement, but the mere possibility that speech might mislead isn't enough to strip it of First Amendment protection. See *Zauderer v. Office of Disciplinary Counsel*, 471 U.S. 626, 644, 105 S.Ct. 2265, 2278, 85 L.Ed.2d 652 (1985).

FN35. Neither does it discuss whether the speech restriction is unconstitutionally vague. *Posadas de P.R. Assocs. v. Tourism Co.*, 478 U.S. 328, 347, 106 S.Ct. 2968, 2980, 92 L.Ed.2d 266 (1986).

Process matters. The Supreme Court didn't set out the Central Hudson test for its health. It devised the test because it saw lower courts were giving the First Amendment short shrift when confronted with commercial speech. See *Central Hudson*, 447 U.S. at 561-62, 567-68, 100 S.Ct. at 2348-49, 2352. The Central Hudson test was an attempt to constrain lower courts' discretion, to focus judges' thinking *1521 on the important issues--how strong the state interest is, how broad the regulation is, whether a narrower regulation would work just as well. If the Court wanted to leave these matters to judges' gut feelings, to nifty lines about "the difference between fun and profit," 971 F.2d at 1401, it could have done so with much less effort.

Maybe applying the test would have convinced the majority to change its mind; maybe going through the factors would have shown that its rule was too broad, or the reasons for protecting White's "identity" too

tenuous. Maybe not. But we shouldn't thumb our nose at the Supreme Court by just refusing to apply its test.

VII

For better or worse, we are the Court of Appeals for the Hollywood Circuit. Millions of people toil in the shadow of the law we make, and much of their livelihood is made possible by the existence of intellectual property rights. But much of their livelihood--and much of the vibrancy of our culture--also depends on the existence of other intangible rights: The right to draw ideas from a rich and varied public domain, and the right to mock, for profit as well as fun, the cultural icons of our time.

In the name of avoiding the "evisceration" of a celebrity's rights in her image, the majority diminishes the rights of copyright holders and the public at large. In the name of fostering creativity, the majority suppresses it. Vanna White and those like her have been given something they never had before, and they've been given it at our expense. I cannot agree.

Copyrightable Subject Matter - Originality & Compilation

158 F.3d 674

1998 Copr.L.Dec. P 27,826, 48 U.S.P.Q.2d 1560

(Cite as: 158 F.3d 674)

MATTHEW BENDER & COMPANY, INC.,**Plaintiff,****Hyperlaw, Inc., Intervenor-Plaintiff-****Appellee,****v.****WEST PUBLISHING CO. and West
Publishing Corporation, Defendants-
Appellants.**

(West Publishing Co. I)

Docket No. 97-7910.United States Court of Appeals,
Second Circuit.

Argued March 16, 1998.

Before: CARDAMONE and JACOBS, Circuit
Judges, and SWEET, [FN*] District Judge.Judge SWEET dissents in a separate
opinion.

JACOBS, Circuit Judge:

West Publishing Co. and West Publishing Corp. (collectively "West") publish compilations of reports of judicial opinions ("case reports"). Each case report consists of the text of the judicial opinion with enhancements that for the purposes of this case can be put in two categories: (i) independently composed features, such as a syllabus (which digests and heralds the opinion's general holdings), headnotes (which summarize the specific points of law recited in each opinion), and key numbers (which categorize points of law into different legal topics and subtopics), and (ii) additions of certain factual information *677 to the text of the opinions, including parallel or alternative citations to cases, attorney information, and data on subsequent procedural history. HyperLaw, Inc. publishes compact disc-read only memory ("CD-ROM") compilations of Supreme Court and United States Court of Appeals decisions, and intervened as a plaintiff to seek a judgment declaring that the

individual West case reports that are left after redaction of the first category of alterations (i.e., the independently composed features), do not contain copyrightable material. West now appeals from a judgment of the United States District Court for the Southern District of New York (Martin, J.), following a bench trial, granting declaratory judgment in favor of HyperLaw. *Matthew Bender & Co. v. West Publishing Co.*, No. 94 Civ. 0589, 1997 WL 266972 (S.D.N.Y. May 19, 1997).

It is true that neither novelty nor invention is a requisite for copyright protection, but minimal creativity is required. Aside from its syllabi, headnotes and key numbers--none of which HyperLaw proposes to copy--West makes four different types of changes to judicial opinions that it claimed at trial are copyrightable: (i) rearrangement of information specifying the parties, court, and date of decision; (ii) addition of certain information concerning counsel; (iii) annotation to reflect subsequent procedural developments such as amendments and denials of rehearing; and (iv) editing of parallel and alternate citations to cases cited in the opinions in order to redact ephemeral and obscure citations and to add standard permanent citations (including West reporters). All of West's alterations to judicial opinions involve the addition and arrangement of facts, or the rearrangement of data already included in the opinions, and therefore any creativity in these elements of West's case reports lies in West's selection and arrangement of this information. In light of accepted legal conventions and other external constraining factors, West's choices on selection and arrangement can reasonably be viewed as obvious, typical, and lacking even minimal creativity. Therefore, we cannot conclude that the district court clearly erred in finding that those elements that HyperLaw seeks to copy from West's case reports are not copyrightable, and affirm.

BACKGROUND

West obtains the text of judicial opinions directly from courts. It alters these texts as described above to create a case report, and then publishes these case reports (first in advance sheets, then in bound volumes) in different series of "case reporters." [FN1] These case reporter series cover all state and federal courts and are collectively known as West's "National Reporter System." Two series of case reporters are at issue in this case: the Supreme Court Reporter, which contains, *inter alia*, all Supreme Court opinions and memorandum decisions; and the Federal Reporter, which contains, *inter alia*, all United States Court of Appeals opinions designated for publication, as well as tables showing the disposition of unpublished cases.

FN1. West also functions as the publisher of slip opinions--i.e., the official versions of court opinions--for the Fifth and Eleventh Circuits, and West does not claim a copyright for any alterations it makes to those slip opinions other than its syllabi, headnotes, and key numbers.

HyperLaw markets two compilations that cover approximately the same ground: Supreme Court on Disc, an annual CD-ROM disc containing opinions of the United States Supreme Court starting from 1990; and Federal Appeals on Disc, a quarterly CD-ROM disc containing nearly all opinions (published and unpublished) of the United States Courts of Appeals from January 1993 on. [FN2] Currently, HyperLaw obtains the text of the opinions directly from the courts. However, HyperLaw intends to expand its CD-ROM product to include any recent cases it could not obtain directly from the courts (and attorney information that is omitted from slip opinions by certain circuits), as well as pre-1990 Supreme Court cases and pre-1993 court of appeals cases that are cited in recent Supreme Court and court of appeals cases (so that users can jump to those cases). HyperLaw ***678** intends to achieve this expansion by copying West's case reports (after redacting the syllabi, headnotes and key numbers) from the Supreme Court Reporter

and the Federal Reporter. The total number of opinions HyperLaw intends to copy is unclear; but HyperLaw's President Alan Sugarman testified that in time it could reach 50 percent of Supreme Court and court of appeals decisions published by West.

FN2. The record seems to indicate that since the commencement of this suit, HyperLaw has combined these two products into one.

Following the commencement of suit by Matthew Bender & Co. in the United States District Court for the Southern District of New York seeking a judgment declaring that Bender's insertion of star pagination to West's case reporters in its CD-ROM version of judicial opinions did not infringe West's copyright, HyperLaw intervened and requested the same relief. In addition, HyperLaw sought a declaration that HyperLaw's redacted versions of West's case reports contain no copyrightable material and thus may be copied without infringement. On the star pagination issue, the district court granted summary judgment to Bender and HyperLaw, and final judgment was entered pursuant to Fed.R.Civ.P. 54(b). (We affirm that ruling in a separate opinion issued today). See *Matthew Bender & Co. v. West Publ'g Co.*, 158 F.3d 693 (2d Cir.1998). But the district court denied summary judgment allowing HyperLaw to copy redacted versions of West's case reports, and conducted a bench trial on this issue.

The principal trial witness was Donna Bergsgaard, the manager of West's manuscript department. She specified four kinds of alterations made by West to the opinions that it publishes in the Supreme Court Reporter and Federal Reporter and that HyperLaw intends to copy: (i) the arrangement of prefatory information, such as parties, court, and date of decision; (ii) the selection and arrangement of the attorney information; (iii) the arrangement of information relating to subsequent procedural developments; and (iv) the selection of parallel and alternative citations.

Following the bench trial, the district court ruled that West's revisions to judicial opinions

were merely trivial variations from the public domain works, and that West's case reports were therefore not copyrightable as derivative works. *Matthew Bender & Co.*, 1997 WL 266972 at *4. In reaching this conclusion, the district court reviewed each type of alteration and found that "West does not have a protectible interest in any of the portions of the opinions that HyperLaw copies or intends to copy" because West's alterations lack even minimal creativity. *Id.*

DISCUSSION

I

II

[3] Works of the federal government are not subject to copyright protection; the text of judicial decisions may therefore be copied at will. 17 U.S.C. § 105. Federal judicial opinions may, however, form part of a compilation. The Copyright Act defines "compilation" as "a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship." 17 U.S.C. § 101. West has filed a certificate of copyright registration for every paperbacked advance sheet and bound permanent volume of the *Supreme Court Reporter* and *Federal Reporter*, and each certificate characterizes the copyrighted work as a "compilation." Under *Feist Publications, Inc. v. Rural Telephone Serv. Co.*, 499 U.S. 340, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991), an infringement claim for a compilation has two elements: "(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original." *Id.* at 361, 111 S.Ct. at 1296.

But HyperLaw has not signaled its intent to copy the text of every case included in particular volumes of West case reporters or the case reporters' selection and arrangement of cases; [FN3] HyperLaw's intent is to copy particular, though numerous, individual ***680** case reports. HyperLaw seeks a declaratory judgment that these case reports--after

removal of the syllabus, headnotes, and key numbers--contain no copyrightable material.

FN3. Whether insertion of star pagination to West's case reporters amounts to copying of West's arrangement of cases is a separate question we address in the other opinion issued today. See *Matthew Bender & Co. v. West Publ'g Co.*, 158 F.3d at 693.

A HyperLaw contends that each case report should be analyzed as a derivative work, which is defined under the Copyright Act as, *inter alia*, "[a] work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship." 17 U.S.C. § 101. The district court adopted this view and analyzed the individual case report as a derivative work, but found it wanting in the requisite originality. West contends that each case report is a compilation, i.e., a collection of facts that have been distinctively selected and arranged. No one claims that a case report is anything other than a derivative work or a compilation.

The House Report on the 1976 Copyright Act distinguishes between a derivative work and a compilation:

Between them the terms ... comprehend every copyrightable work that employs preexisting material or data of any kind. There is necessarily some overlapping between the two, but they basically represent different concepts. A "compilation" results from a process of selecting, bringing together, organizing, and arranging previously existing material of all kinds, regardless of whether the individual items in the material have been or ever could have been subject to copyright. A "derivative work," on the other hand, requires a process of recasting, transforming, or adapting "one or more preexisting works"; the "preexisting work" must come within the general subject matter of copyright set forth in section 102, regardless of whether it is or was ever copyrighted.

H.R.Rep. No. 94-1476, at 57 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5670; see also 1 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 3.02, at 3-5 (1998) ("[W]hile a compilation consists merely of the selection and arrangement of pre-existing material without any internal changes in such material, a derivative work involves recasting or transformation, i.e., changes in the pre-existing material, whether or not it is juxtaposed in an arrangement with other pre-existing materials.").

We think that West's case reports have elements of both types of works. West compiles (and selects) the factual information it includes in each case report--the type of task usually involved in creating a compilation. On the other hand, West rearranges prefatory and citation information included in judicial opinions, steps that tend toward the making of a derivative work rather than a compilation. In addition, all of West's decisions are constrained by West's main project, which is to enhance the judicial opinions without altering their texts in any substantive or appreciable way.

[4] We need not categorize West's case reports as either derivative works or compilations in order to decide this case. Copyright protection is unavailable for both derivative works and compilations alike unless, when analyzed as a whole, they display sufficient originality so as to amount to an "original work of authorship." See 17 U.S.C. § 101 (defining a "derivative work", *inter alia*, as a work containing alterations "which, as a whole, represent an original work of authorship"); *id.* (defining a compilation as requiring that "the resulting work as a whole constitutes an original work of authorship"). The originality required for copyright protection is essentially the same. See Feist, 499 U.S. at 358, 111 S.Ct. at 1294 ("Originality requires only that the author make the selection or arrangement independently ... and that it display some minimal level of creativity."); *L. Batlin & Son, Inc. v. Snyder*, 536 F.2d 486, 490-91 (2d Cir.1976) (*in banc*) ("[W]hile a copy of something in the public domain will

not, if it be merely a copy, support a copyright, a distinguishable variation will. * * * [T]o support a copyright there must be at least some substantial variation, not merely a trivial variation such as might occur in the translation to a different medium."). As West and HyperLaw seemingly agree, the question presented is whether West's alterations to the case reports, when considered collectively, demonstrate sufficient originality and creativity to be copyrightable.

*681 B

[5] The district court found that the elements of the West case reports for which West seeks copyright protection lack sufficient originality or creativity to be protectable--whether considered separately or together. Because we treat the question of whether particular elements of a work demonstrate sufficient originality and creativity to warrant copyright protection as a question for the factfinder--here the judge--we will not reverse the district court's findings unless clearly erroneous. See, e.g., *Victor Lalli Enters., Inc. v. Big Red Apple, Inc.*, 936 F.2d 671, 673 (2d Cir.1991) (*per curiam*) ("Generally, we review a district court's determination of whether a work is sufficiently original to merit copyright protection under the clearly erroneous standard."); *Financial Information, Inc. v. Moody's Investors Serv., Inc.*, 808 F.2d 204, 207-08 (2d Cir.1986) (same); see also *Woods v. Bourne Co.*, 60 F.3d 978, 991 (2d Cir.1995) (noting that our review of originality determination is for clear error); *Weissmann v. Freeman*, 868 F.2d 1313, 1322 (2d Cir.1989) (holding that the district court's finding of lack of originality or variation in derivative work was reviewable for clear error). The dissent (at [page 1], footnote 1) argues that *de novo* review would be more appropriate, and that our precedents to the contrary are doubtful in light of Feist. Feist, however, did not address standard of review, and the clear error standard retains vitality in our precedents, both before and after Feist. In 1995, we acknowledged that the question of copyrightability entails the kind of conclusion that would often justify *de novo* review, but

that most courts, including this Court, review for clear error. See *Woods*, 60 F.3d at 991 (Feinberg, J.) (citing 1 William F. Patry, *Copyright Law and Practice* 145 n. 106 (1994) (cataloguing cases)).

[6] The only elements of a work that are entitled to copyright protection are those that are original. See *Feist*, 499 U.S. at 361, 111 S.Ct. at 1296; *Mid America Title Co. v. Kirk*, 59 F.3d 719, 721 (7th Cir.1995). The "originality" standard requires that the work result from "independent creation" and that the author demonstrate that such creation entails a "modicum of creativity." See *Feist*, 499 U.S. at 346, 111 S.Ct. at 1288; see also *Key Publications, Inc. v. Chinatown Today Publ'g Enters., Inc.*, 945 F.2d 509, 512-13 (2d Cir.1991) ("Simply stated, original means not copied, and exhibiting a minimal amount of creativity.").

[7] According to West, the required originality and creativity inhere in four elements of the case reports that HyperLaw intends to copy:

- (i) the arrangement of information specifying the parties, court, and date of decision;
- (ii) the selection and arrangement of the attorney information;
- (iii) the arrangement of information relating to subsequent procedural developments such as amendments and denials of rehearing; and
- (iv) the selection of parallel and alternative citations. [FN4]

FN4. West initially claimed some creativity in its corrections to the text of opinions, but it has abandoned this claim, presumably because these corrections either are trivial (i.e., punctuation or spelling), or else (nearly always) approved by the courts by order or informal means.

Each element either adds or rearranges preexisting facts, in themselves unprotectable, and so West is not entitled to protection for these elements of its case reports unless it demonstrates creativity in the selection or arrangement of those facts. See

Feist, 499 U.S. at 348, 111 S.Ct. at 1289. Because many of the cases relating to compilations assess the creativity involved in selecting and arranging information, we look to those cases for guidance.

[8] The Copyright Act protects original and minimally creative selection of preexisting, unprotected materials (such as facts) for inclusion in a work, as well as original and creative arrangement of those materials. See *Eckes v. Card Prices Update*, 736 F.2d 859, 863 (2d Cir.1984) ("[S]electivity in including otherwise non-protected information can be protected expression."); 1 *Nimmer*, supra, § 3.04[B][2], at 3-31 ("If originally combined, a selection or arrangement of underlying materials that are themselves unoriginal ***682** may support copyright protection."). *Feist* tells us:

The compilation author typically chooses which facts to include, in what order to place them, and how to arrange the collected data so that they may be used effectively by readers. These choices as to selection and arrangement, so long as they are made independently by the compiler and entail a minimal degree of creativity, are sufficiently original that Congress may protect such compilations through the copyright laws.

Feist, 499 U.S. at 348, 111 S.Ct. at 1289 (citations omitted). [FN5] However, not every such compilation or decision on selection or arrangement is sufficiently creative to be protected.

FN5. We have previously explained that the protection of compilations "is consistent with the objectives of the copyright law ... to promote the advancement of knowledge and learning by giving authors economic incentives ... to labor on creative, knowledge-enriching works" because compilations "that devise new and useful selections and arrangements of information ... contribute to public knowledge by providing cheaper, easier, and better organized access to information." *CCC Info. Servs., Inc. v. Maclean Hunter Mkt. Reports, Inc.*, 44

F.3d 61, 65-66 (2d Cir.1994). Without that financial incentive, such compilations would not be created. *Id.* at 66. Nevertheless, it is not a goal of copyright law to promote the production of compilations which lack sufficient creativity.

[9] The creative spark is missing where: (i) industry conventions or other external factors so dictate selection that any person composing a compilation of the type at issue would necessarily select the same categories of information, see, e.g., *Victor Lalli Enters.*, 936 F.2d at 672 (charts of winning numbers in illegal gambling operations); see also *Mid America Title Co.*, 59 F.3d at 722 (title examiner's report; "[s]electing which facts to include in this compilation of data was not a matter of discretion based on Mid America's personal judgment or taste, but instead it was a matter of convention and strict industry standards"), or (ii) the author made obvious, garden- variety, or routine selections, see *Feist*, 499 U.S. at 362, 111 S.Ct. at 1296 (concluding that the selection and arrangement of a white pages in which the publisher had chosen to include name, town and telephone number, and to arrange these listings in alphabetical order were entirely "typical" and "garden-variety"); *BellSouth Adver. & Publ'g Corp. v. Donnelley Info. Publ'g, Inc.*, 999 F.2d 1436, 1444 (11th Cir.1993) (in banc) (holding that the categories for the organization of material in a yellow pages directory lacked creativity where many of the selected headings, such as "Attorneys" or "Banks" are so obvious and many others "result from certain standard industry practices").

Thus, when it comes to the selection or arrangement of information, creativity inheres in making non-obvious choices from among more than a few options. See, e.g., *Hearn v. Meyer*, 664 F.Supp. 832, 847 (S.D.N.Y.1987) ("Copyright protection is afforded rarely where a fact permits only a narrow continuum or spectrum of expression."). For example, in *Kregos v. Associated Press*, 937 F.2d 700, 704 (2d Cir.1991), the decision to express a

pitcher's performance in terms of nine statistics from "at least scores of available statistics about pitching performance available to be calculated from the underlying data and therefore thousands of combinations of data that a selector can choose to include in a pitching form" was not necessarily obvious or self-evident. We therefore concluded that the district court erred in granting summary judgment on the uncopyrightability of the pitching forms. *Id.* at 704-05, 711; see also *American Dental Ass'n v. Delta Dental Plans Ass'n*, 126 F.3d 977, 979 (7th Cir.1997) (holding taxonomy of dental procedures creative after noting that they "could be classified ... in any of a dozen different ways"). However, selection from among two or three options, or of options that have been selected countless times before and have become typical, is insufficient. Protection of such choices would enable a copyright holder to monopolize widely-used expression and upset the balance of copyright law.

[10] In sum, creativity in selection and arrangement therefore is a function of (i) the total number of options available, (ii) external factors that limit the viability of certain options and render others non-creative, and (iii) ***683** prior uses that render certain selections "garden variety." See, e.g., 1 Patry, *supra*, at 196 ("As a general principle, the greater the amount of material from which to select, coordinate, or arrange, the more likely it is that a compilation will be protectible. On the other hand, where less material is available, it is less likely that a compilation, even if original, will be protectible, since de minimis efforts, including selections, are not subject to copyright.").

C

We proceed to assess the originality and creativity underlying the elements of West's case reports that HyperLaw seeks to copy.

1. Captions, Courts, and Date Information

[11] West claims that originality inheres in the following enhancements:

. The format of the party names--the "caption"--is standardized by capitalizing the first named plaintiff and defendant to derive a "West digest title," and sometimes the party names are shortened (e.g., when one of the parties is a union, with its local and national affiliations, West might give only the local chapter number, and then insert etc.). [FN6]

FN6. West offered as evidence at trial memoranda to its editors concerning caption alterations. Review of these memoranda demonstrates that they are simply concerned with accurate presentation of caption information. For example, they clarify the accurate family name for parties of Chinese or Spanish origin so that the editor capitalizes the proper name in the caption. They also set forth a uniform system for abbreviating certain words, which is not original or copyrightable. See, e.g., *Brief English Systems, Inc. v. Owen*, 48 F.2d 555, 556 (2d Cir.1931) ("There is no literary merit in a mere system of condensing written words into less than the number of letters usually used to spell them out.").

. The name of the deciding court is restyled. E.g., West changes the slip opinion title of "United States Court of Appeals for the Second Circuit" to "United States Court of Appeals, Second Circuit."

. The dates the case was argued and decided are restyled. E.g., when the slip opinion gives the date on which the opinion was "filed," West changes the word "filed" to "decided."

. The caption, court, docket number, and date are presented in a particular order, and other information provided at the beginning of some slip opinions is deleted (such as the lower court information, which appears in the West case syllabus).

We do not think that the district court committed clear error in finding that these changes are insubstantial, unoriginal, and

uncreative. Reference to a case by the names of the first plaintiff and first defendant is a garden variety decision. See, e.g., *The Bluebook: A Uniform System of Citation* rule 10.2.1(a) (16th ed.1996) (hereinafter "The Bluebook"). The same is true of West's manner of shortening long case names. See, e.g., *id.* rule 10.2.1(i) ("Cite a union name exactly as given in the official reporter, except that: (i) only the smallest unit should be cited ... (ii) all craft or industry designations ... should be omitted...."). Even if these choices regarding which words to capitalize and shorten to form the West digest title were an original inspiration, we doubt the decisions to shorten the titles or capitalize certain letters would be copyrightable. See *Secure Servs. Tech., Inc. v. Time & Space Processing, Inc.*, 722 F.Supp. 1354, 1363 n. 25 (E.D.Va.1989) ("Size of print ... is not copyrightable."); 37 C.F.R. § 202.1(a) (1998) ("Words and short phrases such as names [and] titles ... mere variations of typographic ornamentation [or] lettering" are not copyrightable.). Nor does West's overall choice concerning which procedural facts to include at the start of the case report demonstrate the requisite originality or creativity: The names of the parties, the deciding court, and the dates of argument and decision are elementary items, and their inclusion is a function of their importance, not West's judgment. Cf. *Kregos*, 937 F.2d at 702 (noting that "there can be no claim of a protectable interest in the categories of information concerning each day's [baseball] game," including the teams, starting pitchers, the game time, and the betting odds).

2. Attorney Information

[12] The second claimed creative element is West's selection and arrangement of attorney *684 information. The Supreme Court slip opinions and some slip opinions of the courts of appeals omit some or all of the information about counsel that West compiles from the docket sheets and from other sources. For Supreme Court opinions, West lists the arguing counsel and the lawyer's city and state of practice; for court of appeals

decisions, West lists the names of briefing attorneys as well as arguing attorneys, and specifies each lawyer's city and state of practice and law-firm or agency affiliation.

Here again we agree with the district court that West's decisions lack a modicum of creativity. Like the name, town and telephone number included in Feist's telephone directory, the information West includes--attorney names, firms and cities of practice--is entirely "typical" and "garden-variety." See, e.g., *Skinder-Strauss Assocs. v. Massachusetts Continuing Legal Educ., Inc.*, 914 F.Supp. 665, 676 (D.Mass.1995) (noting that "[i]n compiling a Massachusetts directory of lawyers and judges, ... [t]he 'selection' of other directory data, including the attorney name, address, telephone and fax numbers, year of bar admission, and so forth are ... unoriginal and determined by forces external to the compiler"); cf. *Key Publications, Inc. v. Chinatown Today Publ'g Enters., Inc.*, 945 F.2d 509, 514 (2d Cir.1991) (emphasizing the creativity inherent in designating phone-book classifications of particular interest to Chinese-Americans). In fact, most courts (this one included) provide the very same information in their slip opinions.

West's decision to provide more information about counsel in the court of appeals case reports, and less in the Supreme Court case reports does not strike a creative spark because the options available to a publisher are simply too limited. West's claim illustrates the danger of setting too low a threshold for creativity or protecting selection when there are two or three realistic options: West lists only the arguing attorneys and city of practice, while *United States Law Week* lists the arguing and briefing attorneys, their firm affiliations and city and state of practice. If both of these arrangements were protected, publishers of judicial opinions would effectively be prevented from providing any useful arrangement of attorney information for Supreme Court decisions that is not substantially similar to a copyrighted arrangement.

3. Subsequent History

[13] West's case reports reflect certain subsequent procedural developments, such as orders amending an opinion or denying rehearing. The district court found that West's alteration of opinions to reflect these subsequent case developments does not reflect an exercise of originality or creativity, in part because West's realistic options are limited. We cannot say that this was clear error.

In most appeals, the only subsequent development is a denial of rehearing. West's manuscript manager Bergsgaard described two possible ways to reflect this action: (i) a file line, inserted at the beginning of the case just after the date of the original decision, which simply states "rehearing denied" and the date of the denial, or (ii) a table containing the same information. West has chosen to reflect denial of rehearing via a file line. Neither this choice, nor the actual language used to reflect the denials ("rehearing denied" followed by the date), is creative or requires judgment.

As the trial testimony reflects, subsequent orders sometimes reflect more extensive changes or additions to opinions, such as amendments to the original opinion (ranging from minimal to extensive), or subsequent opinions upon denial of rehearing or in dissent from denial of rehearing or rehearing in banc. The actual text of any amendments to opinions or new opinions issued with the denial of rehearing will always be the court's. But West points to the following available options for reflecting these changes, and claims that its choice from among these options is creative: (i) printing the order in full at the end of the opinion; (ii) altering the text of the opinion to reflect the amendments; (iii) publishing the order separately from the original opinion in a different volume and cross-referencing to the original opinion; or (iv) reprinting the original opinion in full with the changes reflected in the text.

***685** Almost never will these decisions present more than one or two realistic or

useful options, and almost always the choice among them will be dictated by the timing of the court action. For example, an order amending an opinion will either (i) reflect the exact locations in the opinion where changes are to be made, in which case the obvious preference is to alter the text of the opinion, or (ii) include some general language modifying the opinion, in which case the obvious preference is to print the order at the end of the text of the opinion. If the opinion has not yet gone to print in an advance sheet or a bound volume, West will actually make these changes in the original opinion. If the opinion has already been printed in the bound volume, then West (once again) has only binary options: (i) print only the order and cross-reference to the original opinion, or (ii) reprint the opinion in full, incorporating the changes and/or publishing the order at the end of the opinion. As set forth in the margin, West's exemplar confirms how little judgment is exercised even in a case with a complicated subsequent procedural history. [FN7] West also adds a file line explaining the action, but the line merely sets forth the court's action. Given the few practical options available to West, and the fact that the choice among these narrow options will be dictated by the timing and nature of the court's action, we do not think the district court clearly erred in determining that this element of West's case reports does not demonstrate sufficient creativity to be protectable.

FN7. West focuses on its case report for *Roulette v. City of Seattle*, decided in March 1996 and published at 78 F.3d 1425 (9th Cir.1996). In September 1996, there issued an order amending the opinion upon denial of rehearing and suggestion for rehearing in banc, and two opinions dissenting from the denial of rehearing in banc. The order amending the opinion made substantial substantive changes to the opinion, and so West decided to republish the

full opinion with the changes reflected in the text at 97 F.3d 300 (9th Cir.1996). Moreover, it printed the full order (with a note indicating that the amendments to the opinion were included in the text) with the dissenting opinions at the end of the opinion. Finally, it added a file line reflecting those developments. None of these decisions demonstrates the exercise of any creativity; in fact, with the exception of the file line, all were dictated by the changes made to the opinion by the court. The Ninth Circuit did the same thing, i.e., republished the original opinion incorporating the amendments and printed the order and dissents in full following the text.

4. Parallel or Alternate Citations

[14] As the district court recognized, the element of West's case reports that raises the closest question as to creativity is West's emending of the citations, as follows:

- (a) West inserts parallel citations when the judicial opinion does not, e.g., (i) for citations to Supreme Court opinions, it inserts parallel citations to United States Reports, Supreme Court Reporter, and Lawyer's Edition, (ii) for citations to a state court, West inserts parallel citations to the official reporter and West's regional reporter, and (iii) for citations to looseleaf, specialized, or electronic reporters, West inserts parallel citations to a West National Reporter System ("NRS") reporter or Westlaw (West's on-line database);
- (b) West substitutes some court citations, e.g., if the court cites to a slip opinion that has been published in an NRS reporter, West will substitute a citation to the NRS reporter; and
- (c) West adds citations when the opinion refers to a case by name but does not insert a citation.

The district court concluded that "[i]n most instances the determination of which parallel citations to include ... reflect[s] no level of originality," and that the "selections made tend to conform to the standard of the legal profession and appear consistent with those recommended in A Uniform System of Citation." *Matthew Bender & Co.*, 1997 WL 266972 at *4.

We cannot find that the district court's conclusion was unreasonable. West claims that it exercises careful judgment as to which sources are most useful to legal practitioners. However, almost every one of West's decisions relating to citation alterations is inevitable, typical, dictated by legal convention, or at best binary. See 1 Patry, *supra*, at 196-97 ("Even where theoretically there is a large number of items to choose from, functional, commercial, or legal constraints may limit, or *686 even bar, protectibility."). And each case report exhibits only one or two decisions on how to alter citations.

West has issued a series of memoranda to its editors that contain guidelines for citation alterations (a complete list of the citational instructions is set out in the margin [FN8]). Most of West's citation guidelines need no discussion because they involve obvious, garden-variety decisions to cite to West NRS case reporters and to Westlaw whenever the court has cited to sources that are not easily accessible, such as looseleaf or daily or weekly reporter services or slip opinions; there are few options to begin with, and West's case reporters and Westlaw have the widest availability and have essentially become the standard citation to case law. See, e.g., *The Bluebook*, *supra*, at 165-225 (recommending citation to West federal and regional reporters for all federal and state courts, with the exception of the Supreme Court, for which Supreme Court Reporter is listed as a secondary cite); *id.* rule 10.3.1 (recommending citation to West regional reporters, and if not published therein, to a "widely used computer database" or to a "service," in that order of preference). No evaluative judgment is involved in a decision

to cite to those two sources (especially given West's self-interest in including citations to its own products).

FN8. West has issued the following guidelines for citation alterations:

(1) follow certain prescribed formats for abbreviation of Rules of Civil Procedure, state rules, and statutes.

(2) add a citation to Westlaw or to an NRS case reporter for citations to certain looseleaf services when the case cannot be directly retrieved through Westlaw using the looseleaf service citation.

(3) substitute an NRS case reporter cite for 15 publications, almost all of which are daily or weekly reports or journals, including: Arizona Advance Reports, California Daily Appellate Report, 9th Circuit Daily Journal, Florida Law Weekly, Oklahoma Bar Journal, Texas Supreme Court Journal, and United States Law Week.

(4) add an NRS case reporter or Westlaw cite for 15 publications, some of which are topical publications and others of which are competitor publications, including: American Law Reports (A.L.R.), Board of Tax Appeals, Federal Sentencing Reporter, Idaho Bankruptcy Court Reports, Pennsylvania Fiduciary, and Virgin Islands Reports.

(5) for citations to cases appearing in tables in West case reporters, include a Westlaw cite if Westlaw contains the full-text of the summary order.

(6) if the court's citation indicates that a petition for certiorari has been filed and the Supreme Court has acted on the petition:

(a) if the petition has been denied and the date of the denial was prior to the date the opinion was decided, add the citation for the denial of certiorari.

(b) if the petition was denied after the opinion was decided, do not add a citation for the denial of certiorari.

(c) if the petition was granted, check with the court to see if the case citation should be retained.

(7) if a court includes a short form citation for a case which has not yet been cited in full in the opinion, insert the full citation.

(8) if a court cites to a slip opinion, add the NRS case reporter citation. If this citation is unavailable prior to publication, add a Westlaw citation.

(9) add extension pages for citations if the court's NRS citation includes an extension page.

(10) change internal page references in the slip opinion to dashes so that a reporter page number can be inserted by West editors.

(11) add a Westlaw or NRS case reporter citation for public utility citations.

(12) do not remove citations in opinions to public domain citation systems in those jurisdictions that have adopted such citation systems, including the Sixth Circuit and South Dakota.

(13) add a Westlaw citation when the court includes a LEXIS citation, and in certain situations, remove the LEXIS citation.

(14) add a citation for a case referenced in the text of the opinion without citation unless that case appears on a list of 300 popular case names.

(15) add parallel citations for Supreme Court decisions to United States Reports, Supreme Court Reporter, and Lawyer's Edition.

(16) add parallel citations for state court decisions to an NRS regional case reporter and the state's official reporter.

[15] As for the other guidelines, the following represent the citation decisions that receive the most emphasis by West, and that represent most, if not all, of the examples of

citation alterations included in cases that West offered into evidence at trial:

. West's decision to insert a citation to the denial of certiorari only when the denial predated the opinion is necessary to avoid anachronism, and is in any event a choice *687 among two or three options at most. [FN9] See, e.g., *BellSouth Adver. & Publ'g Corp. v. Donnelley Info. Publ'g, Inc.*, 999 F.2d 1436, 1441 (11th Cir.1993) (in banc) (holding that determination of closing date after which no changes were included in the yellow pages at issue did not demonstrate creativity in selection because "any collection of facts 'fixed in any tangible medium of expression' will by necessity have a closing date" (footnote omitted)).

FN9. Even West notes in its brief, "Every publisher has at least three options [on how to update citations in slip opinions]--to leave citations as they appear in the opinion, to update them as of the date of case-report publication, or to update them only as of the date of the original order."

. As proof of its creativity in electing to parallel-cite to United States Reports, Supreme Court Reporter, and Lawyer's Edition, West lists eight other reporters of Supreme Court opinions that do not parallel-cite to these sources, and to which West does not parallel-cite. But all of these reporters are daily or weekly updates intended to provide quick copies of the slip opinions, not to serve as research tools or permanent records, and they are not recognized as standard sources for citation in the legal profession. West's decision to omit parallel citation to those reporters requires no evaluative judgment, and the decision by the publishers of those reporters and services to omit parallel citation to the same reporters cited by West reflects the more limited purpose of those reporters rather than the creativity of West's own choice. [FN10] In the end, West decided to include every permanent record of Supreme Court opinions--i.e., it makes no "selection" at all.

FN10. West maintains a list of 300 cases deemed by West to be so well known that West will leave intact one-party references to these cases without expanding the case citation. This practice involves an undeniably creative, but minor, insight into which cases are within an ordinary lawyer's frame of reference, and the expression of that selection would be protectable. Nevertheless, West offered no evidence as to how often these cases are cited without a full citation in the judicial opinions that HyperLaw seeks to copy and we will not find infringement for what seems to be de minimis copying of protected material. Cf. *Warner Bros. Inc. v. American Broad. Cos.*, 720 F.2d 231, 242 (2d Cir.1983) (noting that de minimis rule permits "the literal copying of a small and usually insignificant portion of the plaintiff's work").

. Nor do we see any creativity in West's decision to cite to official state reporters as well as regional NRS reporters for state court decisions. These are almost always the only two realistic choices (again, this hardly amounts to "selection"), and a decision to cite to an official reporter can hardly be said to be anything other than typical. [FN11]

FN11. West emphasizes that The Bluebook's rule dispenses with citation to

official reporters, but it ignores another Bluebook rule that practitioners cite to official state reporters for cases decided by the state in which the practitioner is filing papers. See The Bluebook, *supra*, rule P.3. Furthermore, another citation guide recommends citing to both the official reporter and the NRS reporter on all occasions. See The

University of Chicago Manual of Legal Citation 15 (1989) ("When citing to a state case, indicate the volume and first page of the case for both the official and commercial reporters.").

One useful way to appreciate how little creativity inheres in West's citation decisions is to consider what West's competitors would have to do to avoid an infringement claim were we to find West's citation decisions copyrightable. Competitors such as HyperLaw seeking to create a useful case report would need to engage in their own original selection of parallel and alternate citations. But while some generally useful information which does not appear in West's case reports could be included (such as citations to LEXIS instead of Westlaw), most of the information a researcher would find useful (such as citations to West NRS reporters) already have been added to West's case reports; West gives few examples of other useful supplementary information. A competitor that included these alterations, notwithstanding their inclusion in West's case reports, could have no confidence that an infringement claim could be avoided, especially given our warning in *Key Publications* that infringement cannot be avoided by pointing to isolated differences from a copyrighted work. See *Key Publications, Inc. v. Chinatown Today Publ'g Enters., Inc.*, 945 F.2d 509, 514 (2d *688 Cir.1991) (holding that a compilation copyright is not so "thin" as to be "anorexic," and does not allow "subsequent compilers to avoid infringement suits simply by adding a single fact to a verbatim copy of the copyrighted compilation, or omitting in the copy a single fact contained in the copyrighted compilation"). One way of saying that West's "choices" are obvious and typical is that a competitor would have difficulty creating a useful case report without using many of the same citations. Affording these decisions copyright protection could give West an effective monopoly over the commercial

publication of case reports (at least those containing supplemental citations).

Nor do we think the district court erred in concluding that the combination of these citation decisions is unprotectable. West's particular decisions about which parallel citations to insert are driven in each instance by the court's decision to cite to a certain case, and thus each editorial choice is independent of the others. The cumulative effect of these citation decisions is a piling up of things that are essentially obvious or trivial (albeit helpful), each in its discrete way in its discrete spot. The whole does not disclose or express an overall creative insight or purpose, such as a set of statistics that together allow the ranking of a group of ball players, or a designation or highlighting of phone numbers that together allow the user of a phone book to enjoy an unusual or particular convenience. The combined effect of West's non-creative citation decisions cannot be said to be creative, on such a theory or any other theory that West advances. We conclude that the district court did not clearly err in deciding that West's citation alterations display insufficient creativity to be protectable.

* * *

Finally, West's overall decision to add attorney information, subsequent history, and additional citation information exhibits little, if any, creative insight; most courts already provide attorney information, and opinion accuracy mandates inclusion of subsequent history.

West's editorial work entails considerable scholarly labor and care, and is of distinct usefulness to legal practitioners. Unfortunately for West, however, creativity in the task of creating a useful case report can only proceed in a narrow groove. Doubtless, that is because for West or any other editor of judicial opinions for legal research, faithfulness to the public-domain original is the dominant editorial value, so that the creative is the enemy of the true. [FN12]

FN12. HyperLaw argues that we should apply the merger doctrine to bar the copyrightability of West's alterations to judicial opinions. The fundamental copyright principle that only the expression of an idea and not the idea itself is protectable has produced a corollary maxim that even expression is not protected in those instances where there is only one or so few ways of expressing an idea that protection of the expression would effectively accord protection to the idea itself.

Kregos v. Associated Press, 937 F.2d 700, 705 (2d Cir.1991) (citation omitted). HyperLaw claims that the idea of a case report has effectively merged with West's expression of that concept.

We decline to invoke the merger doctrine in this case. First, "[o]ur Circuit has considered this so-called 'merger' doctrine in determining whether actionable infringement has occurred, rather than whether a copyright is valid." *Id.*; see also *CCC Info. Servs., Inc. v. Maclean Hunter Market Reports, Inc.*, 44 F.3d 61, 72 n. 26 (2d Cir.1994) ("In this circuit, consideration of the merger doctrine takes place in light of the alleged copying to determine if infringement has occurred, rather than in analyzing the copyrightability of the original work."). In addition, under this approach, "if a defendant has actually copied the plaintiff's work, it is unlikely to be allowed to rely on merger to avoid liability," *Kregos*, 937 F.2d at 716 (Sweet, J., concurring in part and dissenting in part). HyperLaw seeks a declaratory judgment holding West's case reports non-copyrightable and allowing it actually to copy West's case reports. It therefore cannot avail itself of the merger doctrine.

Second, West's work does not constitute a "building block[] of understanding," which we have indicated is the type of expression to which we will consider applying the merger doctrine. See *CCC Info. Servs.*, 44 F.3d at 71.

Our decision in this case does not mean that an editor seeking to create the most accurate edition of another work never exercises creativity. [FN13] As West argues, our decisions *689 establish a low threshold of

creativity, even in works involving selection from among facts. But those cases involved the exercise of judgments more evaluative and creative than West exercises in the four elements of the case reports that HyperLaw intends to copy. For instance, in *Kregos*, 937 F.2d at 704; see also *Eckes v. Card Prices Update*, 736 F.2d 859, 863 (2d Cir.1984) (baseball card guide which selected 5,000 "premium" baseball cards from among 18,000 eligible baseball cards was copyrightable). In *Key Publications*, we found sufficient creativity because the author of the yellow pages "excluded from the directory those businesses she did not think would remain open for very long." 945 F.2d at 513. In *CCC Information Services*, we found sufficient creativity in the selection of optional car features and number of years' models to be included in a used-car price compilation. 44 F.3d at 67. And in *Lipton v. Nature Co.*, 71 F.3d 464 (2d Cir.1995), the author "selected [the terms included in the work] from numerous variations of hundreds of available terms." *Id.* at 470. In each of these cases, the compiler selected from among numerous choices, exercising subjective judgments relating to taste and value that were not obvious and that were not dictated by industry convention. See *Mid America Title Co. v. Kirk*, 59 F.3d 719, 723 (7th Cir.1995) (distinguishing cases involving exercise of subjective judgment). [FN14]

FN13. It is true that some types of editing require little creativity. See, e.g., *Grove Press, Inc. v. Collectors Publication, Inc.*, 264 F.Supp. 603, 605 (C.D.Cal.1967) ("Plaintiff made approximately forty thousand changes from the Verlag copy in producing its edition. These changes consisted almost entirely of elimination and addition of punctuation, changes of spelling of certain words, elimination and addition of quotation marks, and correction of typographical errors. These changes required no skill

beyond that of a [1967] high school English student and displayed no originality. These changes are found to be trivial."). In addition, convention and external forces may, as here, limit the practical choices available so as to eliminate any creativity.

On the other hand, preparing an edition from multiple prior editions, or creating an accurate version of the missing parts of an ancient document by using conjecture to determine the probable content of the document may take a high amount of creativity. See, e.g., *Abraham Rabinovich, Scholar: Reconstruction of Dead Sea Scroll Pirated*, *Wash. Times: Nat'l Wkly. Edition*, Apr. 12, 1998, at 26 (discussing scholar's copyright infringement claim in Israeli Supreme Court relating to his reconstruction of the missing parts of a "Dead Sea Scroll" through the use of "educated guesswork" based on knowledge of the sect that authored work).

FN14. HyperLaw argues also that West has failed to comply with the requirement of 17 U.S.C. § 403 that it identify those parts of the government work in which it does not claim a copyright. Because we find that the elements of West's case reports that HyperLaw seeks to copy are not protectable, we need not reach this issue.

Similarly, in *Weissmann v. Freeman*, 868 F.2d 1313 (2d Cir.1989), a textual derivative-work case, we found sufficient creativity where the author of the derivative work had drawn on earlier joint works with another professor to create a document that contained the following new elements from the previous version of the document:

(1) a selection and arrangement of photo illustrations and associated captions; (2) references to recent reports in the pertinent literature; (3) selection, condensation, and description of additional source material; (4) several new textual additions; (5) substantial rearrangement of the manner and order of presentation of material contained in the parties' prior joint works; and (6) the addition of a section on "congenital disorders," a revised treatment of "chronic cholecystitis," and the incorporation of Dr. Freeman's "false positive" studies.

Id. at 1322. As this passage demonstrates, the alterations inserted in the derivative work were by no means obvious or driven by professional convention, and resulted in substantial changes to the substance and flow of the piece. No such substantial variations characterize West's case reports.

CONCLUSION

The district court did not clearly err in concluding that the elements of West's case reports that HyperLaw seeks to copy are not copyrightable. The judgment of the district court is affirmed.

SWEET, District Judge:

The key issue in this appeal is whether West's Supreme Court Reporter and Federal Reporter case reports in the context of its *690 overall reporter citation system meet the constitutional and statutory requirement of creative originality. Because the majority imposes a standard that demands significantly more than the "modicum" of originality required by *Feist Publications, Inc., v. Rural Telephone Service Company, Inc.*, 499 U.S. 340, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991), and far more than the "non-trivial" variation required by this Court for derivative-work and compilation copyright protection, I respectfully dissent. [FN1]

FN1. Although not dispositive since I believe that the district court's determination is clearly erroneous,

review should be *de novo*. Whether West's annotations are copyrightable requires application of the legal standard imposed by the constitution and copyright statute to the undisputed facts. To the extent prior Second Circuit opinions have reviewed issues of copyrightability for clear error, they appear inconsistent with the Supreme Court's *de novo* review of a similar issue in *Feist* (impliedly, although not expressly, reversing district court after *de novo* review), inconsistent with the *de novo* standard applied by this Court in other mixed questions in copyright law, see e.g. *American Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 918 (2d Cir.1994) (fair use is mixed question subject to *de novo* review); *Carter v. Helmsley-Spear, Inc.*, 71 F.3d 77, 85 (2d Cir.1995) (work for hire status legal conclusion reviewed *de novo*, although factual finding of each relevant factor reviewed for clear error); *Folio Impressions, Inc. v. Byer California*, 937 F.2d 759, 766 (2d Cir.1991) (substantial similarity reviewed *de novo* since credibility not at issue), or distinguishable, see *Financial Information, Inc. v. Moody's Investors Service, Inc.*, 808 F.2d 204, (2d Cir.1986) (noting that district court relied "on its evaluation of the credibility of witnesses--which we are ill-disposed to disturb on appeal" whereas here facts are not in dispute).

The Copyright Act protects both derivative works and compilations, and I agree with the majority that West's case reports have elements of both. The standard for copyrightability set forth in *Feist*, as the majority notes, is applicable whether West's editorial work is analyzed in terms of derivative work or compilation. See e.g., *Atari Games Corp. v. Oman*, 979 F.2d 242, 244-45 (D.C.Cir.1992) (*Feist* applicable to [audio-visual] compilation); 2 W. Patry, *Copyright Law and Practice* 1225 (1994) (*Feist* applicable to derivative works). Contrary to the majority's holding, however, I find that

West's selection and arrangement of factual annotations to public domain judicial opinions, considered as a whole, is copyrightable.

Originality alone--whether the "author make[s] the selection or arrangement independently (i.e. without copying that selection or arrangement from another work)"--is not sufficient. *Feist*, 499 U.S. at 358, 111 S.Ct. 1282. The work must also "display some minimal level of creativity." *Id.* Creativity for copyright purposes is not a philosophical question: the "creative spark" need only pass "the narrowest and most obvious limits." See *Bleistein v. Donaldson Lithographing Company*, 188 U.S. 239, 251, 23 S.Ct. 298, 47 L.Ed. 460. The "modicum of creativity" requires simply that the author prove "the existence of ... intellectual production, of thought, and conception." *Feist*, 499 U.S. at 362, 111 S.Ct. 1282 (quoting *Burrow-Giles Lithographic Co. v. Sarony*, 111 U.S. 53, 59-60, 4 S.Ct. 279, 28 L.Ed. 349 (1884)); see also *Key Publications Inc. v. Chinatown Today Publishing Enterprises, Inc.*, 945 F.2d 509, 514 (2d Cir.1991). ("[D]e minimis thought withstands originality requirement").

Thus, while the majority is correct that it is "not a goal of copyright law" to encourage the creation of compilations which lack "sufficient creativity," it is well-established that the required level of creativity is "extremely low." *Feist*, 499 U.S. at 345, 111 S.Ct. 1282. [FN2]

FN2. Indeed, "[m]ost applications of *Feist* have recognized the circumscribed sphere to which its holding applies, ruling that it invalidates the copyright only in the most banal of works, such as the white pages of a phone book." 1. M. Nimmer, Copyright § 3.04[B][2], p.3-33 (footnotes omitted).

In *Feist*, Rural's alphabetical arrangement by surname, and selection of name, town and telephone number to include in a telephone book, was "practically inevitable." *Id.* at 363, 111 S.Ct. 1282. Although the facts need not

be presented in an "innovative or surprising way," Rural's choice was "so mechanical or routine as to require no creativity whatsoever." *Feist*, 499 U.S. at 362, 111 S.Ct. 1282. Indeed, the copyright claimant in *Feist* had no real choice how to arrange a white pages directory, particularly given that state law prescribed the selection of data, and that only a few basic decisions were involved. *Id.* *691 Also significant was that only Rural possessed the underlying data. *Id.* at 363, 111 S.Ct. 1282.

Here, West has made choices to make its reporters and its citation system valuable. West makes dozens of multi-part, variable judgments, and there is no evidence that any of West's choices are commonplace, "practically inevitable," dictated by law, or that they follow any external guidelines. On the contrary, the record demonstrates that West makes a number of substantive, editorial choices--without court direction or approval--in determining the content and expression of its case reports. West's judgments involve assessments of "readability," clarity, completeness, availability (present and future) of sources, and other subjective considerations related to making the reports more useful.

Specifically, West asserts that originality inheres in the following aspects of its editorial process: (1) its decisions about when to add parallel citations and which parallel citations to add; (2) its substitution of "alternative citations" when its editors deem that the original citation should be improved upon in terms of usefulness, currency, or accuracy; (3) its addition of its own citations when none are provided; (4) its internal revision and correction of citations; (5) its expansion and completion of citation page references; (6) its creation, selection, and arrangement of additional text to reflect subsequent case developments; (7) its selection and arrangement of data for attorney summaries, and (8) its revision and reorganization of captions, court lines, date lines, and other prefatory material. Because these choices express thought and are not inevitable, West's

annotations do not fall in the "narrow category" of works which are not copyrightable.

The fact that federal judges publish written opinions differently than West is sufficient reason to conclude that West's version requires some "thought" and is sufficiently "creative" to satisfy the modicum necessary for copyrightability. If a federal judge chooses to cite only to the United States Reporter, include minimal attorney information in his or her written opinion, or not provide a cite for a referenced case, then an alternative choice to provide parallel citations, expand attorney information, and cite the case cannot be deemed so "typical," "garden-variety," "obvious" or "inevitable" to prohibit copyrightability. Cf. Feist, 499 U.S. at 362-63, 111 S.Ct. 1282.

The majority dissects each element of West's editorial process and then extrapolates that "the cumulative effect of these citation decisions is a piling up of things that are essentially obvious or trivial (albeit helpful), each in its discrete way in its discrete spot."

West's originality, however, cannot be determined by the sum total of whatever (creativity) remains after each individual component is atomized. Indeed, this Court recently warned against the dangers of basing copyrightability analysis on an approach which isolates each element or ignores the "protectible expression within an unprotectible element." *Softel, Inc. v. Dragon Medical and Scientific Communications, Inc.*, 118 F.3d 955, 964 (2d Cir.1997). See also 3 M. Nimmer, Copyright § 13.03[F][5], at 13-145 n.345.1 (explaining that the fact that Hamlet's soliloquy can be reduced into unprotectible words does not mean that the soliloquy as a whole lacks originality for copyright purposes).

West's selection of particular annotations for each case must be considered a whole, not individually. See *Key Publications*, 945 F.2d at 514 (issue is "whether the arrangement ... viewed in the aggregate, is original"). In defining a derivative work, the issue is

whether "modifications" "represent an original work of authorship" must be considered "as a whole." 17 U.S.C. § 101 (emphasis added) (definition of derivative work). The same legislative command is repeated in the definition of compilations, which provides that a compilation is "a work formed by the collection and assembling of preexisting materials ... that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship." 17 U.S.C. § 101 (emphasis added). The cumulative and collective originality manifest in West's case reports satisfies the "de minimis" level needed for the work as a whole to be copyrightable. Indeed, ***692** it must be assumed that the originality and the consequent utility of the West citation system is precisely the reason that Hyperlaw seeks to use West as its verbatim source.

In my view the decision of the majority is not consistent with the post- Feist case *Key Publications*, 945 F.2d at 509. In *Key Publications*, this Court held that classified directories of Chinese-American businesses was copyrightable because, among other things, plaintiff excluded enterprises she believed would not remain in business. This selection "indicates thought and creativity in the selection of businesses included." *Id.* at 513. If there is a modicum of originality in deciding which businesses are likely to stay open for awhile, the test is surely also met by deciding in a system designed to assist legal research for example, which sources are sufficiently useful, available, or permanent to stand alone, and which require the addition of an electronic parallel citation.

Contrary to the majority's view, the alternative factual annotations selected by West are not comparable to the cases where courts have denied copyright protection based on lack of originality. In *Victor Lalli Enterprises, Inc. v. Big Red Apple, Inc.*, 936 F.2d 671 (2d Cir.1991), it was undisputed that the publisher's selection and arrangement of fact categories was exactly the same as that of all racing-chart publishers. *Id.* at 672. In *Financial Information, Inc. v. Moody's*

Investors Service, Inc., 808 F.2d 204 (2d Cir.1986), cert. denied, 484 U.S. 820, 108 S.Ct. 79, 98 L.Ed.2d 42, it was beyond dispute that the five basic facts listed on the Daily Bond Cards were an "inevitable" choice devoid of originality. In this case, by contrast, all of West's basic choices involve subjective judgment.

In *Skinder-Strauss Associates v. Massachusetts Continuing Legal Education, Inc.*, 914 F.Supp. 665 (D.Mass.1995), the court held that the legal directory is copyrightable "as a whole," and therefore the question was substantial similarity, not copyrightability. *Id.* at 677. Although the *Skinder-Strauss* court held that individual elements, such as a calendar of Christian and Jewish holidays, were not copyrightable, here West does not seek copyrightability of individual facts, but rather seeks to prevent verbatim copying of the case report as a whole.

The copyright granted West is thin, but it is sufficient to protect against the verbatim digital copying proposed by Hyperlaw. This result protects the advancement of science and the arts, while not permitting Hyperlaw to undermine any incentive for West to annotate judicial opinions selectively. If West's competitors were authorized to scan West's editorial enhancements systematically and, in effect, to copy its citation system, the economic incentive to engage in this kind of original and productive enterprise would largely evaporate.

There is no danger here that granting West's copyright protection to its annotations provides them a monopoly over the "idea" of publishing judicial opinions. When the number of ways data can be organized is so limited that its expression merges with the idea, copyright may be denied. However, here "there are a sufficient number of ways of expressing the idea ... to preclude a ruling that the idea has merged into its expression." *Kregos v. Associated Press*, 937 F.2d 700 (2d Cir.1991). In *Kregos*, this Court held that "the past performances of baseball pitchers can

be measured by a variety of statistics," and is copyrightable. Here, too, opinions can be, and are, written with a variety of citation combinations and other facts either included or not. This case is not like *Matthew Bender & Co. v. Kluwer Law Book Publishers, Inc.*, 672 F.Supp. 107 (S.D.N.Y.1987), where the court concluded that the categories in the plaintiff's chart (amount, case, plaintiff event, injury, and relevant data) are "the only sensible ones which could have been used to compile the data." *Id.* at 112.

To the extent that the West selection of factual annotation may seem obvious to anyone familiar with legal sources, it may be because of West's success in the market. [FN3] *693 There is no support for the proposition that West's success in achieving an "industry standard" citation arrangement obligates them to donate the material to the public domain. Cf. *BellSouth*, 999 F.2d at 1444 (industry standard copied from industry association).

FN3. The contention that all of West's enhancements are trivial is somewhat ironic given that what motivates this litigation, it is assumed, is the desire to make money by copying West's valuable editorial work.

For the reasons stated, I conclude the summary judgment granted in favor of Hyperlaw should be reversed.

158 F.3d 693
1998 Copr.L.Dec. P 27,827,
48 U.S.P.Q.2d 1545

MATTHEW BENDER & COMPANY, INC.,
Plaintiff-Appellee,
Hyperlaw, Inc., Intervenor-Plaintiff-
Appellee,
v.
WEST PUBLISHING CO.; West Publishing
Corporation, Defendants-Appellants.
(West Publishing Co, II)
Docket No. 97-7430.

United States Court of Appeals,
Second Circuit.

Argued March 16, 1998.

Decided Nov. 3, 1998.

Before: CARDAMONE and JACOBS, Circuit
Judges, and SWEET, [FN*] District Judge.

Judge SWEET dissents in a separate
opinion.

JACOBS, Circuit Judge:

Defendants-appellants West Publishing Co. and West Publishing Corp. (collectively "West") create and publish printed compilations of federal and state judicial opinions. Plaintiff-appellee Matthew Bender & Company, Inc. and intervenor-plaintiff-appellee HyperLaw, Inc. (collectively "plaintiffs") manufacture and market compilations of judicial opinions stored on compact disc-read only memory ("CD-ROM") discs, in which opinions they embed (or intend to embed) citations that show the page location of the particular text in West's printed version of the opinions (so-called "star pagination"). [FN1] Bender and HyperLaw seek judgment declaring that star pagination will not infringe West's copyrights in its compilations of judicial opinions. West now appeals from a judgment of the United States District Court for the Southern District of New York (Martin, J.), granting summary judgment of noninfringement to Bender and partial summary judgment of noninfringement to HyperLaw. [FN2]

FN1. This cross-reference method is called "star pagination" because an asterisk and citation or page number are inserted in the text of the judicial opinion to indicate when a page break occurs in a different version of the case.

FN2. The district court granted summary judgment to HyperLaw on the star pagination issue. However, HyperLaw had sought an additional declaration that its duplication of West's version of the captions and text of judicial opinions does not infringe West's copyright. The district court denied summary judgment on that claim, and ruled for HyperLaw following a bench trial. West appeals from that decision as well and we uphold that ruling in a separate opinion issued today. See *Matthew Bender & Co. v. West Publ'g Co.*, 158 F.3d 674 (2d Cir.1998).

West's primary contention on appeal is that star pagination to West's case reporters allows a user of plaintiffs' CD-ROM discs (by inputting a series of commands) to "perceive" West's copyright-protected arrangement of cases, and that plaintiffs' products (when star pagination is added) are unlawful copies of *696 West's arrangement. We reject West's argument for two reasons:

A. Even if plaintiffs' CD-ROM discs (when equipped with star pagination) amounted to unlawful copies of West's arrangement of cases under the Copyright Act, (i) West has conceded that specification of the initial page of a West case reporter in plaintiffs' products ("parallel citation") is permissible under the fair use doctrine, (ii) West's arrangement may be perceived through parallel citation and thus the plaintiffs may lawfully create a copy of West's arrangement of cases, (iii) the incremental benefit of star pagination is that it allows the reader to perceive West's page breaks within each opinion, which are not protected by its copyright, and (iv) therefore star pagination does not create a "copy" of any

protected elements of West's compilations or infringe West's copyrights.

B. In any event, under a proper reading of the Copyright Act, the insertion of star pagination does not amount to infringement of West's arrangement of cases.....

DISCUSSION

[1][2] West's case reporters are compilations of judicial opinions. The Copyright Act defines a "compilation" as "a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship." 17 U.S.C. § 101 (1994). Compilations are copyrightable, but the copyright "extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work." 17 U.S.C. § 103 (1994). [FN8] Works of the federal government are not subject to copyright protection, 17 U.S.C. § 105 (1994), although they may be included in a compilation.

FN8. Section 103 of the Copyright Act provides:

(a) The subject matter of copyright as specified by section 102 includes compilations and derivative works, but protection for a work employing preexisting material in which copyright subsists does not extend to any part of the work in which such material has been used unlawfully.

(b) The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material.

17 U.S.C. § 103.

Feist Publications, Inc. v. Rural Telephone Service Co., 499 U.S. 340, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991), is the seminal Supreme Court decision on copyrights in compilations. In Feist, the publisher of a

telephone book claimed that a competitor had infringed its compilation copyright by copying some of its white pages listings. The Court clarified the scope of a copyright in compilations: "A factual compilation is eligible for copyright if it features an original selection or arrangement of facts, but the *699 copyright is limited to the particular selection or arrangement. In no event may copyright extend to the facts themselves." Id. at 350-51, 111 S.Ct. at 1290. Because of this limitation on protectability, "the copyright in a factual compilation is thin. Notwithstanding a valid copyright, a subsequent compiler remains free to use the facts contained in another's publication to aid in preparing a competing work, so long as the competing work does not feature the same selection and arrangement." Id. at 349, 111 S.Ct. at 1289. The Court expressly rejected the "sweat of the brow" doctrine, which had justified the extension of copyright protection to the facts and other non- original elements of compilations on the basis of the labor invested in obtaining and organizing the information. Id. 359-60, 111 S.Ct. at 1295.

[3] Under Feist, two elements must be proven to establish infringement: "(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original." Id. at 361, 111 S.Ct. at 1296. Bender and HyperLaw concede that West has proven the first element of infringement, i.e., that West owns a valid copyright in each of its case reporters.

[4][5][6] However, as is clear from the second Feist element, copyright protection in compilations "may extend only to those components of a work that are original to the author." Id. at 348, 111 S.Ct. at 1289. The "originality" requirement encompasses requirements both "that the work was independently created ..., and that it possesses at least some minimal degree of creativity." Id. at 345, 111 S.Ct. at 1287 (emphasis added); see also Key Publications, Inc. v. Chinatown Today Publ'g Enters., Inc., 945 F.2d 509, 512-13 (2d Cir.1991) ("Simply stated, original means not copied, and exhibiting a minimal amount of

creativity."). At issue here are references to West's volume and page numbers distributed through the text of plaintiffs' versions of judicial opinions. West concedes that the pagination of its volumes--i.e., the insertion of page breaks and the assignment of page numbers--is determined by an automatic computer program, and West does not seriously claim that there is anything original or creative in that process. As Judge Martin noted, "where and on what particular pages the text of a court opinion appears does not embody any original creation of the compiler." Because the internal pagination of West's case reporters does not entail even a modicum of creativity, the volume and page numbers are not original components of West's compilations and are not themselves protected by West's compilation copyright. [FN9] See Feist, 499 U.S. at 363, 111 S.Ct. at 1297 ("As a constitutional matter, copyright protects only those constituent elements of a work that possess more than a de minimis quantum of creativity.").

FN9. The same conclusion can be arrived at using a different chain of reasoning. There is a fundamental distinction under the Copyright Act between the original work of authorship and the physical embodiment of that work in a tangible medium. See H.R.Rep. No. 94-1476, at 53 (1976), reprinted in 1976 U.S.C.A.N. 5659, 5666 (noting "a fundamental distinction between the 'original work' which is the product of 'authorship' and the multitude of material objects in which it can be embodied. Thus, in the sense of the [Act], a 'book' is not a work of authorship, but is a particular kind of 'copy.' Instead, the author may write a 'literary work,' which in turn can be embodied in a wide range of 'copies' and 'phonorecords'...."). The embedding of the copyrightable work in a tangible medium does not mean that the features of the tangible medium are also copyrightable. Thus, here, the original element of

West's compilation, its arrangement of cases, is protectable, while the features of the physical embodiment of the work, i.e., the page numbers, are not.

Because the volume and page numbers are unprotected features of West's compilation process, they may be copied without infringing West's copyright. [FN10] However, West proffers an alternative argument based on the fact (which West has plausibly demonstrated) ***700** that plaintiffs have inserted or will insert all of West's volume and page numbers for certain case reporters. West's alternative argument is that even though the page numbering is not (by itself) a protectable element of West's compilation, (i) plaintiffs' star pagination to West's case reporters embeds West's arrangement of cases in plaintiffs' CD-ROM discs, thereby allowing a user to perceive West's protected arrangement [FN11] through the plaintiffs' file-retrieval programs, and (ii) that under the Copyright Act's definition of "copies," 17 U.S.C. § 101, a work that allows the perception of a protectable element of a compilation through the aid of a machine amounts to a copy of the compilation. We reject this argument for two separate reasons. [FN12]

FN10. The dissent would extend copyright protection to all page numbers because, when inserted into a complete set of opinions appearing in West's case reporters, they reflect the arrangement of those reporters. Dissent at page 709. But such an approach would extend copyright to page numbers which do not represent an exercise of original authorship. Although the arrangement of West's cases may be copyrightable, and although complete star pagination may permit the perception of that arrangement, there is no support for extending copyright protection to an unoriginal element because when completely copied it reveals a protected element rather than copies it.

FN11. West claims that its arrangement of cases, see *supra* note 3, is original and worthy of copyright protection. Hyperlaw (but not Bender) argues that West's arrangement of cases in the Supreme Court Reporter and the Federal Reporter (the case reporters containing the opinions included on HyperLaw's CD-ROM discs) is insufficiently original to be copyrightable. But because we find that West's arrangement has not been copied through the insertion of star pagination to West's case reporters, we can assume without deciding that West's case reporters contain an original and copyrightable arrangement.

In addition, this opinion will not address any copying by plaintiffs of the selection of cases included in West's case reporters. First, West argued below that Bender had copied West's arrangement of cases, not its selection. Second, it is uncontested that plaintiffs' compilations include many more opinions than West's case reporters. For example, HyperLaw's second quarter 1996 CD-ROM disc contained approximately 36,000 Supreme Court and court of appeals decisions, only 22,000 of which were published by West. The selection of cases for Bender's product also differs from West's: (i) it contains many unpublished decisions not found in West's reporters, and (ii) unlike West's Federal Reporter, Federal Supplement, and Federal Rules Decisions, Bender's product includes only federal cases decided by New York courts. Accordingly, we cannot find that the selection of cases in plaintiffs' compilations is substantially similar to West's selection. See *Tasini v. New York Times Co.*, 972 F.Supp. 804, 823 (S.D.N.Y.1997) (Sotomayor, J.) (noting that to find infringement of selection, "the subsequent work

cannot differ in selection by 'more than a trivial degree' from the work that preceded it") (citing *Kregos v. Associated Press*, 937 F.2d 700, 710 (2d Cir.1991)).

FN12. Plaintiffs cite *Banks Law Publishing Co. v. Lawyers' Co-Operative Publishing Co.*, 169 F. 386 (2d Cir.1909), in arguing that star pagination to case reporters is permissible, and they intimate that Banks held that the arrangement of cases cannot be copyrightable. Banks' holding seems to have rested on the plaintiff's status as an official reporter. See *id.* at 389 (reprint of text of district court opinion) ("A reasonable interpretation of the statute prescribing his duties implies pagination, volumes of uniform size and reasonable thickness, together with a suitable and convenient arrangement of the cases."). True, our opinion in *Banks* adds that "[i]t is not necessary to discuss so much of the opinion below as deals with the question[] of ... the right of the official reporter to secure copyrights," *id.* at 391, which could imply either that our holding did not rest on the official status of the reporter but on the lack of originality in the arrangement or that the foregone analysis concerns the copyrightability of elements not dictated by statute. In any event, Bender concedes for the purpose of summary judgment that West's arrangement is sufficiently original to merit copyright protection; Banks does not assist in answering the distinct question of whether star pagination infringes the arrangement of another reporter if the arrangement of the cross-paginated work is copyrightable; and Banks preceded even the effective date of the Copyright Act of 1909. We decline to decide this case on the strength of Banks.

[7] West asserts an indirect infringement theory: (i) the embedding of unprotectable volume and page numbers in a CD-ROM disc (so-called "compilation markers" or "tags"), (ii) permits a user to perceive West's arrangement of cases through the aid of a machine, and (iii) this amounts to a copy of the compilation's arrangement under § 101's definition of "copies." Assuming for the moment that West has properly read the Act, i.e., that a copy of the arrangement is created when the arrangement can be perceived with the aid of a user and a machine, we think it is clear that the copy is not created by insertion of star pagination.

West concedes that insertion of parallel citations (identifying the volume and first page numbers on which a particular case appears) to West's case reporters in plaintiffs' products (as well as any other compilations of judicial opinions) is permissible under the fair use doctrine. [FN13] See West Reply Brief at 5 n.5 (noting "West's long-held position ***701** that parallel citation to West case reports by competitors (without additional star pagination) is a fair use under 17 U.S.C. § 107--i.e., an otherwise infringing use that, when analyzed under the § 107 factors, is deemed 'fair' "); West's Response to Bender's Rule 3(g) Statement ¶ 32, Joint Appendix at 1581; see also *West Publ'g Co. v. Mead Data Central, Inc.*, 799 F.2d 1219, 1222 (8th Cir.1986) ("West concedes that citation to the first page of its reports is a noninfringing 'fair use' under 17 U.S.C. § 107."). West admitted at oral argument (as it did in the district court [FN14]) that these parallel citations already allow a user of plaintiffs' CD-ROM discs to perceive West's arrangement with the aid of a machine and that plaintiffs' CD-ROM discs therefore already have created a lawful "copy" of West's arrangement on their CD-ROM discs--as West defines "copy." [FN15]

...

Once the copy has thus been created through parallel citation--assuming that anyone would wish to avail themselves of the

capability of perceiving this copy--the only incremental data made perceivable (through the aid of a machine) by star pagination is the location of page breaks within each judicial opinion. But since page breaks do not result from any original creation by West, their location may be lawfully copied. We therefore conclude that star pagination's volume and page numbers merely convey unprotected information, and that their duplication does not infringe West's copyright.

The opposite conclusion was reached by the district court in *Oasis Publishing Co. v. West Publishing Co.*, 924 F.Supp. 918 (D.Minn.1996), which reasoned that the fair-use copying of parallel citation, which could be used to perceive the arrangement of cases, did not excuse copying interior pagination, which could also be used to perceive arrangement. See *id.* at 926. [FN16] It is true that copying under the fair use doctrine will not necessarily permit additional uses, and will not excuse additional copying that in the aggregate amounts to infringement. But a compilation has limited protectability; only the original elements of a compilation (i.e., its selection, arrangement, and coordination) are protected from copying. The insertion of parallel citations already creates a "copy" of West's arrangement (at least as West defines a copy), a copy that is permissible under the fair use doctrine. Star pagination cannot be said to create another copy of the same arrangement. Prohibiting star pagination would simply allow West to protect unoriginal elements of its compilation that have assumed importance and value. Accordingly, ***702** even were we to agree with West's interpretation of the Copyright Act, we would not find infringement.

FN16. The court noted:

Although with either the parallel cites or an internal cite from each case a user could sort West's cases and determine West's arrangement, the former does not utterly supplant the need for West's product while the latter does.

Conceding parallel citation to the first page of each case as a noninfringing

fair use does not diminish West's copyright interest in the subsequent internal pages, which also would independently permit arrangement of the cases by sorting. Having gotten the inch under the conceded fair use of parallel citation to the first page of each case, Oasis is not thereby entitled to take the entire mile in star citation to every page.

Oasis Publ'g Co., 924 F.Supp. at 926.

B

[8] But our rejection of West's position is even more fundamental. If one browses through plaintiffs' CD-ROM discs from beginning to end, using the computer software that reads and sorts it, the sequence of cases owes nothing to West's arrangement. West's argument is that the CD-ROM discs are infringing copies because a user who manipulates the data on the CD-ROM discs could at will re-sequence the cases (discarding many of them) into the West arrangement. To state West's theory in the statutory words on which West (mistakenly) relies, each of the plaintiffs' CD-ROM discs is a "copy" because West's copyrighted arrangement is "fixed" on the disc in a way that can be "perceived ... with the aid of a machine or device." 17 U.S.C. § 101 (1994).

For reasons set forth below, we conclude that a CD-ROM disc infringes a copyrighted arrangement when a machine or device that reads it perceives the embedded material in the copyrighted arrangement or in a substantially similar arrangement. At least absent some invitation, incentive, or facilitation not in the record here, a copyrighted arrangement is not infringed by a CD-ROM disc if a machine can perceive the arrangement only after another person uses the machine to re-arrange the material into the copyright holder's arrangement.

1. Section 101's Definition of "Copies"

West relies on the statutory definition of "copies." To establish infringement, the copyright holder must demonstrate a violation

of an exclusive right. 17 U.S.C. § 501 (1994). One such right is the right "to reproduce the copyrighted work in copies or phonorecords." 17 U.S.C. § 106(1) (1994) (emphasis added). Section 101 of the Copyright Act defines "copies" as follows, the emphasis supplied on terms implicated by the analysis in this case:

"Copies" are material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "copies" includes the material object, other than the phonorecord, in which the work is first fixed.

17 U.S.C. § 101. "A work is 'fixed' in a tangible medium of expression when its embodiment in a copy ... is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." *Id.* (emphasis added).

[9][10] The Copyright Act establishes a "fundamental distinction" between the original work of authorship and the material object in which that work is "fixed." See *supra* note 9. The sole purpose of § 101's definitions of the words "copies" and "fixed" is to explicate the "fixation" requirement, i.e., to define the material objects in which copyrightable and infringing works may be embedded and to describe the requisite fixed nature of that work within the material object. See 1 William F. Patry, *Copyright Law and Practice* 168 (1994) ("The two essential criteria of statutory copyright are originality and fixation."); *id.* at 174 (noting that the definition of "copies" is "intended to 'comprise all the material objects in which copyrightable objects are capable of being fixed' "). Under § 101's definition of "copies," a work satisfies the fixation requirement when it is fixed in a material object from which it can be perceived or communicated directly or with the aid of a machine. [FN17]

FN17. The wording of the definition is set forth in the previous paragraph of text. 17 U.S.C. § 101. The dissent argues that the first "work" in this

passage references the allegedly infringing work, while the second "work" refers to the original work. Dissent at page 710. Our interpretation of the statute flows from a plain reading, under which the same meaning is attached to each reference to a "work"; there is no indication in the statute that the second "work" is intended to refer to the original work of authorship, as opposed to simply the work that is fixed in the material object.

This definition was intended to avoid the distinctions "derived from cases such as *703 *White-Smith Publishing Co. v. Apollo Co.*, 209 U.S. 1 [28 S.Ct. 319, 52 L.Ed. 655] (1908), under which statutory copyrightability in certain cases [had] been made to depend upon the form or medium in which the work is fixed." H.R.Rep. No. 94-1476, at 52 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5665; see also S.Rep. No. 94-473, at 51 (1975). [FN18] In *White-Smith*, the Supreme Court held that a piano roll did not infringe the copyrighted music it played because its perforations were unintelligible to the eye and therefore did not amount to a "copy" of the music (which the Court defined as "a written or printed record of [the musical composition] in intelligible notation' "). See *White-Smith Publ'g Co.*, 209 U.S. at 17, 28 S.Ct. at 323. There was no question in that case that the work embodied in the piano roll reproduced the original work of authorship, i.e., the piece of music; the only question was whether this reproduction met the "fixation" requirement. Thus, the definition of "copies" is intended to expand the "fixation" requirement to include material objects that embody works capable of being perceived with the aid of a machine, thereby ensuring that reproductions of copyrighted works contained on media such as floppy disks, hard drives, and magnetic tapes would meet the Copyright Act's "fixation" requirement.

FN18. In explaining the fixation requirement, the House Report states in full:

As a basic condition of copyright protection, the bill perpetuates the

existing requirement that a work be fixed in a "tangible medium of expression," and adds that this medium may be one "now known or later developed," and that the fixation is sufficient if the work "can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." This broad language is intended to avoid the artificial and largely unjustifiable distinctions, derived from cases such as *White-Smith Publishing Co. v. Apollo Co.*, 209 U.S. 1, 28 S.Ct. 319, 52 L.Ed. 655 (1908), under which statutory copyrightability in certain cases has been made to depend upon the form or medium in which the work is fixed. Under the bill it makes no difference what the form, manner, or medium of fixation may be--whether it is in words, numbers, notes, sounds, pictures, or any other graphic or symbolic indicia, whether embodied in a physical object in written, printed, photographic, sculptural, punched, magnetic, or any other stable form, and whether it is capable of perception directly or by means of any machine or device "now known or later developed."

H.R.Rep. No. 94-1476, at 52, reprinted in 1976 U.S.C.C.A.N. 5659, 5665 (footnote omitted).

That definition--intended to clarify that a work stored on a disk or tape can be a copy of the copyrighted work even if it cannot be perceived by human senses without technological aid--means that CD-ROM discs can infringe a copyright even if the information embedded upon them is not perceptible without the aid of a CD-ROM player. In this case, however, the only fixed arrangement is the (non-West) sequence that is embedded on plaintiffs' CD-ROM discs and that appears with the aid of a machine without manipulation of the data.

To recapitulate a bit, West relies on the definition of "copies" to argue that plaintiffs' CD-ROM discs duplicate its copyrighted

arrangement of cases because star pagination permits a user to "perceive" the copyrighted element "with the aid of" a computer and the FOLIO retrieval system, i.e., by manipulating the data embedded on a CD-ROM disc to retrieve the cases in the order in which they appear in the West case reporters. West's definition of a copy, as applied to a CD-ROM disc, would expand the embedded work to include all arrangements and re arrangements that could be made by a third-party user who manipulates the data on his or her own initiative. But the relevant statutory wording refers to material objects in which "a work" readable by technology "is fixed," not to another work or works that can be created, unbidden, by using technology to alter the fixed embedding of the work, by rearrangement or otherwise. The natural reading of the statute is that the arrangement of the work is the one that can be perceived by a machine without an uninvited manipulation of the data.

West cites no case which supports its interpretation of § 101's definition of "copies," [FN19] and every case we have found has ***704** relied upon the definition solely to ascertain whether a work has met the fixation requirement, not to determine the arrangements and rearrangements of the work fixed on the material object. See, e.g., *Stenograph L.L.C. v. Bossard Assocs., Inc.*, 144 F.3d 96, 100 (D.C.Cir.1998) (citing § 101's definition of "copies" to "support the proposition that the installation of software onto a computer results in 'copying' within the meaning of the Copyright Act"); *Stern Elecs., Inc. v. Kaufman*, 669 F.2d 852, 856 (2d Cir.1982) (using § 101's definition of "copies" to determine whether an audiovisual work met the "fixation" requirement); *Sega Enters. Ltd. v. Accolade, Inc.*, 785 F.Supp. 1392, 1396 (N.D.Cal.) (using § 101 to determine whether an intermediate copy was actionable and noting substantial similarity between intermediate copy and allegedly infringed work as the test for determining whether intermediate copy was reproduction of copyrighted work), *aff'd in part and rev'd in part*, 977 F.2d 1510 (9th Cir.1992).

FN19. West relies on *Tasini v. New York Times Co.*, 972 F.Supp. 804 (S.D.N.Y.1997) (Sotomayor, J.); but that case is completely consistent with our interpretation of § 101's definition of "copies." At issue in *Tasini* was a collective work author's right to produce several electronic databases containing the collective work under § 201(c)'s "revision" right for collective works. The contributors to the collective works argued, *inter alia*, that § 201(c) did not contemplate that a computer database of the collective work could amount to a revision, arguing that because § 201(c) did not confer the right to display the copyrighted work publicly, the work could not be reproduced on a computer because "a work cannot be reproduced electronically unless it is 'displayed' on a computer screen." *Id.* at 816. However, the court rejected this argument, noting that the reproduction right, which is granted under § 201(c), and "which necessarily encompasses the right to create copies of that work, presupposes that such copies might be 'perceived' from a computer terminal." *Id.*

This statement merely affirmed that a reproduction of an original work may be found on a material object that allows the work to be perceived on a computer terminal. But it does not explain the arrangement of the "work" fixed on that copy and whether a particular copy is a reproduction of the original work. Nor did *Tasini* read § 101's definition of "copies" to mean that the data was arranged in any way that could be perceived by a third party with the aid of a sorting device. In fact, when the court did consider whether the work embedded on the CD-ROM was substantially similar to the original collective work, it did not refer to § 101's definition of "copies". *Id.* at 823-25.

2. Substantial Similarity

The question presented--whether an element of West's copyrighted work has been reproduced in a "copy"--is answered by comparing the original and the allegedly infringing works, and inquiring whether the copyrightable elements are substantially similar. Under the facts of this case, the arrangement of the "work" on plaintiffs' CD-ROM discs is the arrangement of cases that is displayed by a CD player reading the information in the order in which it is physically embedded or "fixed" in the discs and not all possible arrangements that can be perceived through the manipulation and rearrangement of the embedded data by a third party user with a machine.

[11] The Supreme Court in *Feist* emphasized that copyright protection for a factual compilation is "thin," and that a compilation containing the same facts or non-copyrightable elements will not infringe unless it "feature[s] the same selection and arrangement" as the original compilation. *Feist*, 499 U.S. at 349, 111 S.Ct. at 1289 (emphasis added); see also *Key Publications, Inc. v. Chinatown Today Publ'g Enters., Inc.*, 945 F.2d 509, 514 (2d Cir.1991) (holding that to establish infringement, a compilation copyright holder must demonstrate "substantial similarity between those elements, and only those elements, that provide copyrightability to the allegedly infringed compilation"). To determine whether two works contain a substantially similar arrangement, courts compare the ordering of material in the two works, finding infringement only when both compilations have featured a very similar literal ordering or format. See, e.g., *Lipton v. Nature Co.*, 71 F.3d 464, 472 (2d Cir.1995) (finding infringement of arrangement when of 25 terms contained in copyrighted work, 21 are listed in same order on allegedly infringing work); *Worth v. Selchow & Righter Co.*, 827 F.2d 569, 573 (9th Cir.1987) (holding that alphabetical arrangement of factual entries in a trivia encyclopedia was not copied by a copyrighted game that organized the factual entries by subject matter and random arrangement on game cards); see also *Jane C. Ginsburg, No "Sweat"? Copyright and Other Protection of*

Works of Information After Feist v. Rural Telephone, *705 92 Colum.L.Rev. 338, 349 (1992) (noting that under *Feist*, nothing "short of extensive verbatim copying" will amount to infringement of a compilation). "If the similarity concerns only noncopyrightable elements of [a copyright holder's] work, or no reasonable trier of fact could find the works substantially similar, summary judgment is appropriate." *Williams v. Crichton*, 84 F.3d 581, 587 (2d Cir.1996) (internal quotation marks and citations omitted). We agree with plaintiffs and amicus United States that West fails to demonstrate the requisite substantial similarity. [FN20] West's case reporters contain many fewer cases than plaintiffs' CD-ROM discs, and are arranged according to classification such as court, date, and genre (opinions, per curiam opinions, orders, etc.), subject to certain exceptions characterized by West as features of originality, whereas plaintiffs organize their cases simply by court and date. Comparison of the works reveals that cases that appear adjacent in the West case reporters are separated on plaintiffs' products by many other cases; and even if these other cases are disregarded, the West cases included on plaintiffs' products are not in an order at all resembling West's arrangement. ...

Star pagination (in addition to revealing the page location of the text of judicial opinions) may incidentally reveal to the reader how the reader could create a copy of West's arrangement by various computer key operations; but by the same token, if the CD-ROM discs were published on paper in the same order as the cases are embedded in the CD-ROM disc, a reader so minded could assemble a "copy" of the West arrangement by use of scissors. Cf. *Horgan v. Macmillan, Inc.*, 789 F.2d 157, 162 (2d Cir.1986) (noting that "the standard for determining copyright infringement is not whether the original could be recreated from the allegedly infringing copy, but whether the latter is 'substantially similar' to the former").

True, CD-ROM technology is different from paper, for as West points out, the arrangement of judicial opinions in a CD-ROM

disc does not correspond necessarily to how the information will be displayed or printed by the user, because the file-retrieval system allows users to retrieve cases in a variety of ways. See Robert C. Denicola, *Copyright in Collections of Facts: A Theory for the Protection of Nonfiction Literary Works*, 81 *Colum.L.Rev.* 516, 531 (1981) ("[I]t is often senseless to seek in [electronic databases] a specific, fixed arrangement of data."). But having rejected West's argument under § 101, we can conclude that the arrangement of plaintiffs' work is the sequence of cases as embedded on the plaintiffs' CD-ROM discs and as displayed to the user browsing through plaintiffs' products. That sequence is not substantially similar to West's case reporters. There is no evidence that Bender and HyperLaw's case-retrieval systems allow a user to browse the cases in the West *706 arrangement without first taking steps to create that arrangement. Thus, an actionable copy of West's sequence of cases, i.e., a work with a substantially similar arrangement fixed in a tangible medium (probably a print-out of the cases), could be created by a user of the CD-ROM discs, but only by using the file-retrieval program as electronic scissors. We cannot find that plaintiffs' products directly infringe West's copyright by inserting star pagination to West's case reporters.

3. Contributory Infringement

[12] Notwithstanding the absence of substantial similarity, a database manufacturer may be liable as a contributory infringer (in certain circumstances) for creating a product that assists a user to infringe a copyright directly. West has hypothesized that users of Bender and HyperLaw's products, using star pagination and the search functions of the CD-ROM products, will retrieve and print cases in the order in which they appear in West's case reporters. See Affidavit of Michael A. Trittipio ¶ 5, Joint Appendix at 1287. A CD-ROM disc user who replicated the West compilation in that way would be an infringer. But West has failed to identify any primary infringer, other than Mr. Trittipio, West's counsel. See *Cable/Home Communication Corp. v.*

Network Prods., Inc., 902 F.2d 829, 845 (11th Cir.1990) ("Contributory infringement necessarily must follow a finding of direct or primary infringement."); 2 Paul Goldstein, *Copyright* § 6.0 (1996) ("For a defendant to be held contributorily or vicariously liable, a direct infringement must have occurred.").

[13][14] Assuming there is a class of primary infringers, then a party "who, with knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer." See *Gershwin Publ'g Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir.1971). Two types of activities that lead to contributory liability are: (i) personal conduct that encourages or assists the infringement; and (ii) provision of machinery or goods that facilitate the infringement. See *ITSI T.V. Prods., Inc. v. California Auth. of Racing Fairs*, 785 F.Supp. 854, 861 n. 13 (E.D.Cal.1992). West argues that Bender and HyperLaw's sale of their CD-ROM products falls within the second category.

[15] However, as amicus United States notes, the provision of equipment does not amount to contributory infringement if the equipment is "capable of substantial noninfringing uses," including uses authorized under the fair use doctrine. See *Sony Corp. of Amer. v. Universal City Studios, Inc.*, 464 U.S. 417, 442, 104 S.Ct. 774, 788-89, 78 L.Ed.2d 574 (1984). In determining whether liability is foreclosed by substantial noninfringing uses, the Supreme Court in *Sony* emphasized that the alleged contributory infringer did not influence or encourage unlawful copying with the equipment it provided. *Id.* at 438, 104 S.Ct. at 787; see also *Cable/Home Communication Corp.*, 902 F.2d at 846.

C

We differ with the Eighth Circuit's opinion in *West Publishing Co. v. Mead Data Central, Inc.*, 799 F.2d 1219 (8th Cir.1986). In that case, LEXIS (an on-line database provider)

announced plans to star paginate its on-line version of cases to West case reporters. West claimed that the star pagination would allow users to page through cases as if they were reading West volumes, and in that way copied West's arrangement of cases. *Id.* at 1222. The court held that "West's arrangement is a copyrightable aspect of its compilation of cases, that the pagination of West's volumes reflects and expresses West's arrangement, and that MDC's intended use of West's page numbers infringes West's copyright in the arrangement." *Id.* at 1223. Even if it was not "possible to use LEXIS to page through cases as they are arranged in West volumes," the court said that insertion of comprehensive star pagination amounted to infringement:

Jump cites to West volumes within a case on LEXIS are infringing because they enable LEXIS users to discern the precise location in West's arrangement of the portion of the opinion being viewed....

With [LEXIS's] star pagination, consumers would no longer need to purchase West's reporters to get every aspect of West's arrangement. Since knowledge of the location of opinions and parts of opinions within West's arrangement is a large part of the reason one would purchase West's volumes, the LEXIS star pagination feature would adversely affect West's market position. "[A] use that supplants any part of the normal market for a copyrighted work would ordinarily be considered an infringement." S.Rep. No. 473, 94th Cong., 1st Sess. 65 (1975)....

***708** *Id.* at 1227-28; see also *Oasis Publ'g Co. v. West Publ'g Co.*, 924 F.Supp. 918, 922-25 (D.Minn.1996) (holding that (i) West Publishing Co. had not been overruled by Feist's disavowal of the "sweat of the brow" doctrine, and (ii) that even if it had, "the internal pagination of [West's reporter] is part of West's overall arrangement, and similarly protected").

The Eighth Circuit in *West Publishing Co.* adduces no authority for protecting pagination as a "reflection" of arrangement, and does not explain how the insertion of star pagination creates a "copy" featuring an arrangement of

cases substantially similar to West's--rather than a dissimilar arrangement that simply references the location of text in West's case reporters and incidentally simplifies the task of someone who wants to reproduce West's arrangement of cases. It is true that star pagination enables users to locate (as closely as is useful) a piece of text within the West volume. But this location does not result in any proximate way from West's original arrangement of cases (or any other exercise of original creation) and may be lawfully copied. So any damage to the marketability of West's reporters resulting from such copying is not cognizable under the Copyright Act. It is interesting that the Eighth Circuit's quotation from the Senate Report on supplanting use is drawn from the Report's discussion of the fair use doctrine, which applies only when the copyright holder has first demonstrated infringement of a protectable element of its work.

At bottom, *West Publishing Co.* rests upon the now defunct "sweat of the brow" doctrine. That court found that LEXIS had infringed West's copyright simply because it supplanted much of the need for West's case reporters through wholesale appropriation of West's page numbers. In reaching this conclusion, the court (i) noted that LEXIS's appropriation would deprive West of a large part of what it "[had] spent so much labor and industry in compiling," *West Publ'g Co.*, 799 F.2d at 1227, and (ii) cited *Hutchinson Telephone v. Fronteer Directory Co.*, 770 F.2d 128 (8th Cir.1985), see *West Publ'g Co.*, 799 F.2d at 1228, which in turn relied on *Leon v. Pacific Telephone & Telegraph Co.*, 91 F.2d 484 (9th Cir.1937), and *Jeweler's Circular Pub Co v. Keystone Pub Co.*, 281 F. 83 (C.C.A.Cir.1922)--classic "sweat of the brow" cases that were overruled in *Feist*. Thus, the Eighth Circuit in *West Publishing Co.* erroneously protected West's industrious collection rather than its original creation. Because *Feist* undermines the reasoning of *West Publishing Co.*, see *United States v. Thomson Corp.*, 949 F.Supp. 907, 926 (D.D.C.1996), we decline to follow it.

CONCLUSION

We hold that Bender and HyperLaw will not infringe West's copyright by inserting star pagination to West's case reporters in their CD-ROM disc version of judicial opinions. The judgement of the district court is affirmed.

SWEET, District Judge.

I respectfully dissent.

This appeal from the grant of summary judgment in favor of the appellee Bender presents challenging issues, the extent of copyright protection for compilations under the § 501(a) and § 106(1) and (3) of Title 17, U.S.C., what constitutes copying in the electronic age, and the propriety of summary judgment in determining issues of fair use. Because the majority reaches conclusions on the first two issues, with which I disagree, and consequently failed to address the third issue, I feel required to dissent, emboldened by the holdings of the three other courts which have considered the issue, *West Pub. Co. v. Mead Data Central, Inc.*, 616 F.Supp. 1571 (D.Minn.1985), *aff'd*, 799 F.2d 1219 (8th Cir.1986), *cert. denied*, 479 U.S. 1070, 107 S.Ct. 962, 93 L.Ed.2d 1010 (1987); *Oasis Pub. Co. v. West Pub. Co.*, 924 F.Supp. 918 (D.Minn.1996), and reached conclusions contrary to those stated by the majority. By concluding that page numbers in the context of the West citation system are facts rather than an expression of originality the majority permits the appellee Bender and the intervenor Hyperlaw to appropriate the practical and commercial value of the West compilation.

The West page numbers which are inserted by appellee Bender in the text of each of ***709** its CD-ROM disks [FN1] by star pagination result from the totality of the West compilation process which includes its concededly original and copyrightable work, i.e. attorney description, headnotes, method of citation and emending of parallel or alternate citations. These result in a compilation work with page numbers assigned mechanically. The West page numbers and the corresponding Bender and Hyperlaw star pagination are the keys

which open the door to the entire West citation system which as the majority noted is an accepted, and in some instances, a required element for the citation of authorities.

FN1. Bender's CD-ROMs obtain the text of the opinions they report from Lexis, opinions which are, of course, in the public domain.

The majority initially assumes the copyrightability of the West work but cites the statement in *Feist Publications, Inc., v. Rural Telephone Service Company, Inc.*, 499 U.S. 340, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991), that "a factual compilation is eligible for copyright if it features an original selection or arrangement of the facts, but the copyright is limited to the particular selection or arrangement. In no event may copyright extend to the facts themselves." 499 U.S. 340 at 350-51, 111 S.Ct. 1282, 113 L.Ed.2d 358, and its conclusion that the compiler's copyright is "thin" permitting a subsequent compiler to use facts "so long as the competing work does not feature the same selection and arrangement." *Id.* By characterizing star pagination as a fact, rather than as an essential part of the selection or arrangement the majority deprives the West pagination of its originality and consequent copyright protection.

The majority concludes that because the volume and page numbers are "unprotected features" of West's compilation process, they may be copied without infringing West's copyright. The majority reasons that, pursuant to the Copyright Act, the "embedding of the copyrightable work in a tangible medium does not mean that the features of the tangible medium are also copyrightable." Therefore, West's arrangement of cases is protectible, but the page numbers are not. The classification of page numbers as physical embodiment rather than the result of originality is the foundation stone of the majority's interpretation of the authorities dealing with the copyright statute.

In my view West's case arrangements, an essential part of which is page citations, are

original works of authorship entitled to copyright protection. Comprehensive documentation of West's selection and arrangement of judicial opinions infringes the copyright in that work.

This reasoning is consistent with Feist. As discussed above, the majority notes that the compiler's copyright is "thin." Feist, 499 U.S. 340 at 350- 51, 111 S.Ct. 1282, 113 L.Ed.2d 358. Therefore, "a subsequent compiler remains free to use the facts contained in another's publication to aid in preparing a competing work, so long as the competing work does not feature the same selection and arrangement." *Id.* at 349, 111 S.Ct. 1282, (emphasis added). In this case, allowing plaintiffs to use the page numbers contained in West's publication enables them to feature West's same selection and arrangement. [FN2] Indeed, were it not for the ability to reproduce West's arrangement, its pagination would be of limited (if any) use.

FN2. It is immaterial that plaintiffs' products may display other arrangements as well as West's. The capability of a CD-ROM to display more than one arrangement does not make the encoding of an original selection and arrangement such as West's any less of an infringement. It is also irrelevant that plaintiffs' products may contain material beyond West's selection and arrangement. Infringement is determined by how much of the copyright owner's work was taken, not by what else the copier's work contains. See e.g., *Warner Bros., Inc. v. American Broadcasting Cos., Inc.*, 720 F.2d 231, 241 (2d Cir.1983).

According to Feist, "[t]he originality requirement articulated in the *The Trade-Mark Cases* and *Burrow-Giles* remains the touchstone of copyright protection today.... It is this bedrock principle of copyright that mandates the law's seemingly disparate treatment of facts and factual compilations." 499 U.S. 340 at 347, 111 S.Ct. 1282, 113 L.Ed.2d 358 (citations omitted).

..... Some of the most seminal developments in copyright law have been driven by technological change. There was a time when people questioned whether photographs, see *Burrow-Giles Lithographic Co. v. Sarony*, 111 U.S. 53, 4 S.Ct. 279, 28 L.Ed. 349 (1884), or advertisements, see *Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239, 23 S.Ct. 298, 47 L.Ed. 460 (1903), were copyrightable. Here again it is necessary to reconcile technology with pre-electronic principles of law. Clearly, plaintiffs' CD-ROM disks are not "copies" in the traditional sense. Yet, plaintiffs provide the ability for a user to push a button or two and obtain West's exact selection and arrangement. This technological capacity presents a new question. The majority's answer threatens to eviscerate copyright protection for compilations.

...

For these reasons I believe the grant of summary judgment granting the declaratory judgment requested by Bender was error, and I therefore dissent from the majority's affirmance of that judgment

49 F.3d 807
63 USLW 2565,
1995 Copr.L.Dec. P 27,367,
34 U.S.P.Q.2d 1014
(Cite as: 49 F.3d 807)

**LOTUS DEVELOPMENT
CORPORATION, Plaintiff, Appellee, v.
BORLAND INTERNATIONAL, INC.,
Defendant, Appellant.**

No. 93-2214.

United States Court of Appeals,
First Circuit.

Heard Oct. 6, 1994.

Decided March 9, 1995.
Before TORRUELLA, Chief Judge, BOUDIN
and STAHL, Circuit Judges.

STAHL, Circuit Judge.

This appeal requires us to decide whether a computer menu command hierarchy is copyrightable subject matter. In particular, we must decide whether, as the district court held, plaintiff-appellee Lotus Development Corporation's copyright in Lotus 1-2-3, a computer spreadsheet program, was infringed by defendant-appellant Borland International, Inc., when Borland copied the Lotus 1-2-3 menu command hierarchy into its Quattro and Quattro Pro computer spreadsheet programs....

I.
Background

Lotus 1-2-3 is a spreadsheet program that enables users to perform accounting functions electronically on a computer. Users manipulate and control the program via a series of menu commands, such as "Copy," "Print," and "Quit." Users choose commands either by highlighting them on the screen or by typing their first letter. In all, Lotus 1-2-3 has 469 commands arranged into more than 50 menus and submenus.

Lotus 1-2-3, like many computer programs, allows users to write what are called "macros." By writing a macro, a user can designate a series of command choices with a single macro keystroke. Then, to execute that series of commands in multiple parts of the spreadsheet, rather than typing the whole series each time, the user only needs to type the single pre-programmed macro keystroke, causing the program to recall and perform the designated series of commands automatically. Thus, Lotus 1-2-3 macros *810 shorten the time needed to set up and operate the program.

Borland released its first Quattro program to the public in 1987, after Borland's engineers had labored over its development for nearly three years. Borland's objective was to develop a spreadsheet program far superior to existing programs, including Lotus 1-2-3. In Borland's words, "[f]rom the time of its initial release ... Quattro included enormous innovations over competing spreadsheet products."

The district court found, and Borland does not now contest, that Borland included in its Quattro and Quattro Pro version 1.0 programs "a virtually identical copy of the entire 1-2-3 menu tree." Borland III, 831 F.Supp. at 212 (emphasis in original). In so doing, Borland did not copy any of Lotus's underlying computer code; it copied only the words and structure of Lotus's menu command hierarchy. Borland included the Lotus menu command hierarchy in its programs to make them compatible with Lotus 1-2-3 so that spreadsheet users who were already familiar with Lotus 1-2-3 would be able to switch to the Borland programs without having to learn new commands or rewrite their Lotus macros.

In its Quattro and Quattro Pro version 1.0 programs, Borland achieved compatibility with Lotus 1-2-3 by offering its users an alternate user interface, the "Lotus Emulation Interface." By activating the Emulation Interface, Borland users would see the Lotus menu commands on their screens and could interact with Quattro or

Quattro Pro as if using Lotus 1-2-3, albeit with a slightly different looking screen and with many Borland options not available on Lotus 1-2-3. In effect, Borland allowed users to choose how they wanted to communicate with Borland's spreadsheet programs: either by using menu commands designed by Borland, or by using the commands and command structure used in Lotus 1-2-3 augmented by Borland-added commands.

Lotus filed this action against Borland in the District of Massachusetts on July 2, 1990, four days after a district court held that the Lotus 1-2-3 "menu structure, taken as a whole--including the choice of command terms [and] the structure and order of those terms," was protected expression covered by Lotus's copyrights. *Lotus Dev. Corp. v. Paperback Software Int'l*, 740 F.Supp. 37, 68, 70 (D.Mass.1990) ("Paperback "). [FN1] Three days earlier, on the morning after the Paperback decision, Borland had filed a declaratory judgment action against Lotus in the Northern District of California, seeking a declaration of non-infringement. On September 10, 1990, the district court in California dismissed Borland's declaratory judgment action in favor of this action.

FN1. Judge Keeton presided over both the Paperback litigation and this case.

Lotus and Borland filed cross motions for summary judgment; the district court denied both motions on March 20, 1992, concluding that "neither party's motion is supported by the record." *Borland I*, 788 F.Supp. at 80. The district court invited the parties to file renewed summary judgment motions that would "focus their arguments more precisely" in light of rulings it had made in conjunction with its denial of their summary judgment motions. *Id.* at 82. Both parties filed renewed motions for summary judgment on April 24, 1992. In its motion, Borland contended that the Lotus 1-2-3 menus were not copyrightable as a matter of law and that no reasonable trier of fact could find that the similarity between its products and Lotus 1-2-3 was sufficient to sustain a

determination of infringement. Lotus contended in its motion that Borland had copied Lotus 1-2-3's entire user interface and had thereby infringed Lotus's copyrights.

On July 31, 1992, the district court denied Borland's motion and granted Lotus's motion in part. The district court ruled that the Lotus menu command hierarchy was copyrightable expression because

[a] very satisfactory spreadsheet menu tree can be constructed using different commands and a different command structure from those of Lotus 1-2-3. In fact, Borland has constructed just such an alternate tree for use in Quattro Pro's native mode. Even if one holds the arrangement of menu commands constant, it is possible to generate literally millions of satisfactory *811 menu trees by varying the menu commands employed.

Borland II, 799 F.Supp. at 217. The district court demonstrated this by offering alternate command words for the ten commands that appear in Lotus's main menu. *Id.* For example, the district court stated that "[t]he 'Quit' command could be named 'Exit' without any other modifications," and that "[t]he 'Copy' command could be called 'Clone,' 'Ditto,' 'Duplicate,' 'Imitate,' 'Mimic,' 'Replicate,' and 'Reproduce,' among others." *Id.* Because so many variations were possible, the district court concluded that the Lotus developers' choice and arrangement of command terms, reflected in the Lotus menu command hierarchy, constituted copyrightable expression.

In granting partial summary judgment to Lotus, the district court held that Borland had infringed Lotus's copyright in Lotus 1-2-3:

[A]s a matter of law, Borland's Quattro products infringe the Lotus 1-2-3 copyright because of (1) the extent of copying of the "menu commands" and "menu structure" that is not genuinely disputed in this case, (2) the extent to which the copied elements of the "menu commands" and "menu structure" contain expressive aspects separable from the functions of the "menu commands" and "menu structure," and (3) the scope of those

copied expressive aspects as an integral part of Lotus 1-2-3.

Borland II, 799 F.Supp. at 223 (emphasis in original). The court nevertheless concluded that while the Quattro and Quattro Pro programs infringed Lotus's copyright, Borland had not copied the entire Lotus 1-2-3 user interface, as Lotus had contended. Accordingly, the court concluded that a jury trial was necessary to determine the scope of Borland's infringement, including whether Borland copied the long prompts [FN2] of Lotus 1-2-3, whether the long prompts contained expressive elements, and to what extent, if any, functional constraints limited the number of possible ways that the Lotus menu command hierarchy could have been arranged at the time of its creation. See Borland III, 831 F.Supp. at 207. Additionally, the district court granted Lotus summary judgment on Borland's affirmative defense of waiver, but not on its affirmative defenses of laches and estoppel. Borland II, 799 F.Supp. at 222-23.

FN2. Lotus 1-2-3 utilizes a two-line menu; the top line lists the commands from which the user may choose, and the bottom line displays what Lotus calls its "long prompts." The long prompts explain, as a sort of "help text," what the highlighted menu command will do if entered. For example, the long prompt for the "Worksheet" command displays the submenu that the "Worksheet" command calls up; it reads "Global, Insert, Delete, Column, Erase, Titles, Window, Status, Page." The long prompt for the "Copy" command explains what function the "Copy" command will perform: "Copy a cell or range of cells." The long prompt for the "Quit" command reads, "End 1-2-3 session (Have you saved your work?)."

Prior to trial, the parties agreed to exclude the copying of the long prompts from the case; Lotus agreed not to contend that Borland had copied the long prompts, Borland agreed not to argue that it

had not copied the long prompts, and both sides agreed not to argue that the issue of whether Borland had copied the long prompts was material to any other issue in the case. See Borland III, 831 F.Supp. at 208.

Immediately following the district court's summary judgment decision, Borland removed the Lotus Emulation Interface from its products. Thereafter, Borland's spreadsheet programs no longer displayed the Lotus 1-2-3 menus to Borland users, and as a result Borland users could no longer communicate with Borland's programs as if they were using a more sophisticated version of Lotus 1-2-3. Nonetheless, Borland's programs continued to be partially compatible with Lotus 1-2-3, for Borland retained what it called the "Key Reader" in its Quattro Pro programs. Once turned on, the Key Reader allowed Borland's programs to understand and perform some Lotus 1-2-3 macros. [FN3] With the Key Reader on, the Borland programs used Quattro Pro menus for display, interaction, and macro execution, except when they encountered a slash ("/") key in a macro (the starting key for any Lotus 1-2-3 ***812** macro), in which case they interpreted the macro as having been written for Lotus 1-2-3. Accordingly, people who wrote or purchased macros to shorten the time needed to perform an operation in Lotus 1-2-3 could still use those macros in Borland's programs. [FN4] The district court permitted Lotus to file a supplemental complaint alleging that the Key Reader infringed its copyright.

FN3. Because Borland's programs could no longer display the Lotus menu command hierarchy to users, the Key Reader did not allow debugging or modification of macros, nor did it permit the execution of most interactive macros.

FN4. See Borland IV, 831 F.Supp. at 226-27, for a more detailed explanation of macros and the Key Reader.

The parties agreed to try the remaining liability issues without a jury. The district court held two trials, the Phase I trial covering all remaining issues raised in the original complaint (relating to the Emulation Interface) and the Phase II trial covering all issues raised in the supplemental complaint (relating to the Key Reader). At the Phase I trial, there were no live witnesses, although considerable testimony was presented in the form of affidavits and deposition excerpts. The district court ruled upon evidentiary objections counsel interposed. At the Phase II trial, there were two live witnesses, each of whom demonstrated the programs for the district court.

After the close of the Phase I trial, the district court permitted Borland to amend its answer to include the affirmative defense of "fair use." Because Borland had presented all of the evidence supporting its fair-use defense during the Phase I trial, but Lotus had not presented any evidence on fair use (as the defense had not been raised before the conclusion of the Phase I trial), the district court considered Lotus's motion for judgment on partial findings of fact. See Fed.R.Civ.P. 52(c). The district court held that Borland had failed to show that its use of the Lotus 1-2-3 menu command hierarchy in its Emulation Interface was a fair use. See *Borland III*, 831 F.Supp. at 208.

In its Phase I-trial decision, the district court found that "each of the Borland emulation interfaces contains a virtually identical copy of the 1-2-3 menu tree and that the 1-2-3 menu tree is capable of a wide variety of expression." *Borland III*, 831 F.Supp. at 218. The district court also rejected Borland's affirmative defenses of laches and estoppel. *Id.* at 218- 23.

In its Phase II-trial decision, the district court found that Borland's Key Reader file included "a virtually identical copy of the Lotus menu tree structure, but represented in a different form and with first letters of menu command names in place of the full menu command names." *Borland IV*, 831

F.Supp. at 228. In other words, Borland's programs no longer included the Lotus command terms, but only their first letters. The district court held that "the Lotus menu structure, organization, and first letters of the command names ... constitute part of the protectable expression found in [Lotus 1-2-3]." *Id.* at 233. Accordingly, the district court held that with its Key Reader, Borland had infringed Lotus's copyright. *Id.* at 245. The district court also rejected Borland's affirmative defenses of waiver, laches, estoppel, and fair use. *Id.* at 235-45. The district court then entered a permanent injunction against Borland, *id.* at 245, from which Borland appeals.

This appeal concerns only Borland's copying of the Lotus menu command hierarchy into its Quattro programs and Borland's affirmative defenses to such copying. Lotus has not cross-appealed; in other words, Lotus does not contend on appeal that the district court erred in finding that Borland had not copied other elements of Lotus 1-2-3, such as its screen displays.

II.

Discussion

On appeal, Borland does not dispute that it factually copied the words and arrangement of the Lotus menu command hierarchy. Rather, Borland argues that it "lawfully copied the unprotectable menus of Lotus 1-2-3." Borland contends that the Lotus menu command hierarchy is not copyrightable because it is a system, method of operation, process, or procedure foreclosed from protection by 17 U.S.C. § 102(b). Borland also raises a number of affirmative defenses.

***813 A. Copyright Infringement Generally**

[1][2] To establish copyright infringement, a plaintiff must prove "(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original." *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361, 111 S.Ct. 1282, 1296, 113 L.Ed.2d 358 (1991); see also *Data Gen.*

Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1160 n. 19 (1st Cir.1994); Concrete Mach. Co. v. Classic Lawn Ornaments, Inc., 843 F.2d 600, 605 (1st Cir.1988). To show ownership of a valid copyright and therefore satisfy Feist's first prong, a plaintiff must prove that the work as a whole is original and that the plaintiff complied with applicable statutory formalities. See *Engineering Dynamics, Inc. v. Structural Software, Inc.*, 26 F.3d 1335, 1340 (5th Cir.1994). "In judicial proceedings, a certificate of copyright registration constitutes prima facie evidence of copyrightability and shifts the burden to the defendant to demonstrate why the copyright is not valid." *Bibbero Sys., Inc. v. Colwell Sys., Inc.*, 893 F.2d 1104, 1106 (9th Cir.1990); see also 17 U.S.C. § 410(c); *Folio Impressions, Inc. v. Byer California*, 937 F.2d 759, 763 (2d Cir.1991) (presumption of validity may be rebutted).

[3][4] To show actionable copying and therefore satisfy Feist's second prong, a plaintiff must first prove that the alleged infringer copied plaintiff's copyrighted work as a factual matter; to do this, he or she may either present direct evidence of factual copying or, if that is unavailable, evidence that the alleged infringer had access to the copyrighted work and that the offending and copyrighted works are so similar that the court may infer that there was factual copying (i.e., probative similarity). *Engineering Dynamics*, 26 F.3d at 1340; see also *Concrete Mach.*, 843 F.2d at 606. The plaintiff must then prove that the copying of copyrighted material was so extensive that it rendered the offending and copyrighted works substantially similar. See *Engineering Dynamics*, 26 F.3d at 1341.

In this appeal, we are faced only with whether the Lotus menu command hierarchy is copyrightable subject matter in the first instance, for Borland concedes that Lotus has a valid copyright in Lotus 1-2-3 as a whole [FN5] and admits to factually copying the Lotus menu command hierarchy. As a result, this appeal is in a very different posture from most copyright-

infringement cases, for copyright infringement generally turns on whether the defendant has copied protected expression as a factual matter. Because of this different posture, most copyright-infringement cases provide only limited help to us in deciding this appeal. This is true even with respect to those copyright- infringement cases that deal with computers and computer software.

FN5. Computer programs receive copyright protection as "literary works." See 17 U.S.C. § 102(a)(1) (granting protection to "literary works") and 17 U.S.C. § 101 (defining "literary works" as "works ... expressed in words, numbers, or other verbal or numerical symbols or indicia, regardless of the nature of the material objects, such as books, periodicals, phonorecords, film, tapes, disks, or cards, in which they are embodied" (emphasis added)); see also H.R.Rep. No. 1476, 94th Cong., 2d Sess. 54 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5667 ("The term 'literary works' ... includes computer data bases, and computer programs to the extent that they incorporate authorship in the programmer's expression of original ideas, as distinguished from the ideas themselves.").

B. Matter of First Impression

Whether a computer menu command hierarchy constitutes copyrightable subject matter is a matter of first impression in this court. While some other courts appear to have touched on it briefly in dicta, see, e.g., *Autoskill, Inc. v. National Educ. Support Sys., Inc.*, 994 F.2d 1476, 1495 n. 23 (10th Cir.), cert. denied, 510 U.S. 916, 114 S.Ct. 307, 126 L.Ed.2d 254 (1993), we know of no cases that deal with the copyrightability of a menu command hierarchy standing on its own (i.e., without other elements of the user interface, such as screen displays, in issue). Thus we are navigating in uncharted waters.

Borland vigorously argues, however, that the Supreme Court charted our course more than 100 years ago when it decided *Baker v. Selden*, 101 U.S. 99, 25 L.Ed. 841 (1879). In *Baker v. Selden*, the Court held that Selden's copyright over the textbook in which he explained *814 his new way to do accounting did not grant him a monopoly on the use of his accounting system. [FN6] Borland argues:

FN6. Selden's system of double-entry bookkeeping is the now almost-universal T-accounts system.

The facts of *Baker v. Selden*, and even the arguments advanced by the parties in that case, are identical to those in this case. The only difference is that the "user interface" of Selden's system was implemented by pen and paper rather than by computer.

To demonstrate that *Baker v. Selden* and this appeal both involve accounting systems, Borland even supplied this court with a video that, with special effects, shows Selden's paper forms "melting" into a computer screen and transforming into Lotus 1-2-3.

We do not think that *Baker v. Selden* is nearly as analogous to this appeal as Borland claims. Of course, Lotus 1-2-3 is a computer spreadsheet, and as such its grid of horizontal rows and vertical columns certainly resembles an accounting ledger or any other paper spreadsheet. Those grids, however, are not at issue in this appeal for, unlike Selden, Lotus does not claim to have a monopoly over its accounting system. Rather, this appeal involves Lotus's monopoly over the commands it uses to operate the computer. Accordingly, this appeal is not, as Borland contends, "identical" to *Baker v. Selden*.

C. Altai

[5] Before we analyze whether the Lotus menu command hierarchy is a system, method of operation, process, or procedure, we first consider the applicability of the test the Second Circuit set forth in *Computer*

Assoc. Int'l, Inc. v. Altai, Inc., 982 F.2d 693 (2d Cir.1992). [FN7] The Second Circuit designed its Altai test to deal with the fact that computer programs, copyrighted as "literary works," can be infringed by what is known as "nonliteral" copying, which is copying that is paraphrased or loosely paraphrased rather than word for word. See *id.* at 701 (citing nonliteral-copying cases); see also 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 13.03[A][1] (1993). When faced with nonliteral-copying cases, courts must determine whether similarities are due merely to the fact that the two works share the same underlying idea or whether they instead indicate that the second author copied the first author's expression. The Second Circuit designed its Altai test to deal with this situation in the computer context, specifically with whether one computer program copied nonliteral expression from another program's code.

FN7. We consider the Altai test because both parties and many of the amici focus on it so heavily. Borland, in particular, is highly critical of the district court for not employing the Altai test. Borland does not, however, indicate how using that test would have been dispositive in Borland's favor. Interestingly, Borland appears to contradict its own reasoning at times by criticizing the applicability of the Altai test.

The Altai test involves three steps: abstraction, filtration, and comparison. The abstraction step requires courts to "dissect the allegedly copied program's structure and isolate each level of abstraction contained within it." *Altai*, 982 F.2d at 707. This step enables courts to identify the appropriate framework within which to separate protectable expression from unprotected ideas. Second, courts apply a "filtration" step in which they examine "the structural components at each level of abstraction to determine whether their particular inclusion at that level was 'idea' or was dictated by considerations of efficiency, so as to be necessarily incidental to that idea; required

by factors external to the program itself; or taken from the public domain." *Id.* Finally, courts compare the protected elements of the infringed work (i.e., those that survived the filtration screening) to the corresponding elements of the allegedly infringing work to determine whether there was sufficient copying of protected material to constitute infringement. *Id.* at 710.

In the instant appeal, we are not confronted with alleged nonliteral copying of computer code. Rather, we are faced with Borland's deliberate, literal copying of the Lotus menu command hierarchy. Thus, we must determine not whether nonliteral copying occurred in some amorphous sense, but rather whether the literal copying of the Lotus ***815** menu command hierarchy constitutes copyright infringement.

[6] While the *Altai* test may provide a useful framework for assessing the alleged nonliteral copying of computer code, we find it to be of little help in assessing whether the literal copying of a menu command hierarchy constitutes copyright infringement. In fact, we think that the *Altai* test in this context may actually be misleading because, in instructing courts to abstract the various levels, it seems to encourage them to find a base level that includes copyrightable subject matter that, if literally copied, would make the copier liable for copyright infringement. [FN8] While that base (or literal) level would not be at issue in a nonliteral-copying case like *Altai*, it is precisely what is at issue in this appeal. We think that abstracting menu command hierarchies down to their individual word and menu levels and then filtering idea from expression at that stage, as both the *Altai* and the district court tests require, obscures the more fundamental question of whether a menu command hierarchy can be copyrighted at all. The initial inquiry should not be whether individual components of a menu command hierarchy are expressive, but rather whether the menu command hierarchy as a whole can be copyrighted. But see *Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 9 F.3d 823 (10th Cir.1993)

(endorsing *Altai*'s abstraction-filtration-comparison test as a way of determining whether "menus and sorting criteria" are copyrightable).

FN8. We recognize that *Altai* never states that every work contains a copyrightable "nugget" of protectable expression. Nonetheless, the implication is that for literal copying, "it is not necessary to determine the level of abstraction at which similarity ceases to consist of an 'expression of ideas,' because literal similarity by definition is always a similarity as to the expression of ideas." 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 13.03[A](2) (1993).

D. The Lotus Menu Command Hierarchy: A "Method of Operation"

Borland argues that the Lotus menu command hierarchy is uncopyrightable because it is a system, method of operation, process, or procedure foreclosed from copyright protection by 17 U.S.C. § 102(b). Section 102(b) states: "In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work." Because we conclude that the Lotus menu command hierarchy is a method of operation, we do not consider whether it could also be a system, process, or procedure.

[7][8][9] We think that "method of operation," as that term is used in § 102(b), refers to the means by which a person operates something, whether it be a car, a food processor, or a computer. Thus a text describing how to operate something would not extend copyright protection to the method of operation itself; other people would be free to employ that method and to describe it in their own words. Similarly, if a new method of operation is used rather than

described, other people would still be free to employ or describe that method.

[10] We hold that the Lotus menu command hierarchy is an uncopyrightable "method of operation." The Lotus menu command hierarchy provides the means by which users control and operate Lotus 1-2-3. If users wish to copy material, for example, they use the "Copy" command. If users wish to print material, they use the "Print" command. Users must use the command terms to tell the computer what to do. Without the menu command hierarchy, users would not be able to access and control, or indeed make use of, Lotus 1-2-3's functional capabilities.

The Lotus menu command hierarchy does not merely explain and present Lotus 1-2-3's functional capabilities to the user; it also serves as the method by which the program is operated and controlled. The Lotus menu command hierarchy is different from the Lotus long prompts, for the long prompts are not necessary to the operation of the program; users could operate Lotus 1-2-3 even if there were no long prompts. [FN9] The Lotus ***816** menu command hierarchy is also different from the Lotus screen displays, for users need not "use" any expressive aspects of the screen displays in order to operate Lotus 1-2-3; because the way the screens look has little bearing on how users control the program, the screen displays are not part of Lotus 1-2-3's "method of operation." [FN10] The Lotus menu command hierarchy is also different from the underlying computer code, because while code is necessary for the program to work, its precise formulation is not. In other words, to offer the same capabilities as Lotus 1-2-3, Borland did not have to copy Lotus's underlying code (and indeed it did not); to allow users to operate its programs in substantially the same way, however, Borland had to copy the Lotus menu command hierarchy. Thus the Lotus 1-2-3 code is not a uncopyrightable "method of operation." [FN11]

FN9. As the Lotus long prompts are not before us on appeal, we take no position on their copyrightability, although we do note that a strong argument could be made that the brief explanations they provide "merge" with the underlying idea of explaining such functions. See *Morrissey v. Procter & Gamble Co.*, 379 F.2d 675, 678-79 (1st Cir.1967) (when the possible ways to express an idea are limited, the expression "merges" with the idea and is therefore uncopyrightable; when merger occurs, identical copying is permitted).

FN10. As they are not before us on appeal, we take no position on whether the Lotus 1-2-3 screen displays constitute original expression capable of being copyrighted.

FN11. Because the Lotus 1-2-3 code is not before us on appeal, we take no position on whether it is copyrightable. We note, however, that original computer codes generally are protected by copyright. See, e.g., *Altai*, 982 F.2d at 702 ("It is now well settled that the literal elements of computer programs, i.e., their source and object codes, are the subject of copyright protection.") (citing cases).

The district court held that the Lotus menu command hierarchy, with its specific choice and arrangement of command terms, constituted an "expression" of the "idea" of operating a computer program with commands arranged hierarchically into menus and submenus. *Borland II*, 799 F.Supp. at 216. Under the district court's reasoning, Lotus's decision to employ hierarchically arranged command terms to operate its program could not foreclose its competitors from also employing hierarchically arranged command terms to operate their programs, but it did foreclose them from employing the specific command

terms and arrangement that Lotus had used. In effect, the district court limited Lotus 1-2-3's "method of operation" to an abstraction.

[11][12] Accepting the district court's finding that the Lotus developers made some expressive choices in choosing and arranging the Lotus command terms, we nonetheless hold that that expression is not copyrightable because it is part of Lotus 1-2-3's "method of operation." We do not think that "methods of operation" are limited to abstractions; rather, they are the means by which a user operates something. If specific words are essential to operating something, then they are part of a "method of operation" and, as such, are unprotectable. This is so whether they must be highlighted, typed in, or even spoken, as computer programs no doubt will soon be controlled by spoken words.

The fact that Lotus developers could have designed the Lotus menu command hierarchy differently is immaterial to the question of whether it is a "method of operation." In other words, our initial inquiry is not whether the Lotus menu command hierarchy incorporates any expression. [FN12] Rather, our initial inquiry is whether the Lotus menu command hierarchy is a "method of operation." Concluding, as we do, that users operate Lotus 1-2-3 by using the Lotus menu command hierarchy, and that the entire Lotus menu command hierarchy is essential to operating Lotus 1-2-3, we do not inquire further whether that method of operation could have been designed differently. The "expressive" choices of what to name the command terms and how to arrange them do not magically change the uncopyrightable menu command hierarchy into copyrightable subject matter.

FN12. We think that the *Altai* test would contemplate this being the initial inquiry.

Our holding that "methods of operation" are not limited to mere abstractions is bolstered

by *Baker v. Selden*. In *Baker*, the Supreme Court explained that

the teachings of science and the rules and methods of useful art have their final end in application and use; and this application *817 and use are what the public derive from the publication of a book which teaches them.... The description of the art in a book, though entitled to the benefit of copyright, lays no foundation for an exclusive claim to the art itself. The object of the one is explanation; the object of the other is use. The former may be secured by copyright. The latter can only be secured, if it can be secured at all, by letters-patent.

Baker v. Selden, 101 U.S. at 104-05. Lotus wrote its menu command hierarchy so that people could learn it and use it. Accordingly, it falls squarely within the prohibition on copyright protection established in *Baker v. Selden* and codified by Congress in § 102(b).

In many ways, the Lotus menu command hierarchy is like the buttons used to control, say, a video cassette recorder ("VCR"). A VCR is a machine that enables one to watch and record video tapes. Users operate VCRs by pressing a series of buttons that are typically labelled "Record, Play, Reverse, Fast Forward, Pause, Stop/Eject." That the buttons are arranged and labeled does not make them a "literary work," nor does it make them an "expression" of the abstract "method of operating" a VCR via a set of labeled buttons. Instead, the buttons are themselves the "method of operating" the VCR.

When a Lotus 1-2-3 user chooses a command, either by highlighting it on the screen or by typing its first letter, he or she effectively pushes a button. Highlighting the "Print" command on the screen, or typing the letter "P," is analogous to pressing a VCR button labeled "Play."

Just as one could not operate a buttonless VCR, it would be impossible to operate Lotus 1-2-3 without employing its menu command hierarchy. Thus the Lotus

command terms are not equivalent to the labels on the VCR's buttons, but are instead equivalent to the buttons themselves. Unlike the labels on a VCR's buttons, which merely make operating a VCR easier by indicating the buttons' functions, the Lotus menu commands are essential to operating Lotus 1-2-3. Without the menu commands, there would be no way to "push" the Lotus buttons, as one could push unlabeled VCR buttons. While Lotus could probably have designed a user interface for which the command terms were mere labels, it did not do so here. Lotus 1-2-3 depends for its operation on use of the precise command terms that make up the Lotus menu command hierarchy.

One might argue that the buttons for operating a VCR are not analogous to the commands for operating a computer program because VCRs are not copyrightable, whereas computer programs are. VCRs may not be copyrighted because they do not fit within any of the § 102(a) categories of copyrightable works; the closest they come is "sculptural work." Sculptural works, however, are subject to a "useful-article" exception whereby "the design of a useful article ... shall be considered a pictorial, graphic, or sculptural work only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article." 17 U.S.C. § 101. A "useful article" is "an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information." *Id.* Whatever expression there may be in the arrangement of the parts of a VCR is not capable of existing separately from the VCR itself, so an ordinary VCR would not be copyrightable.

Computer programs, unlike VCRs, are copyrightable as "literary works." 17 U.S.C. § 102(a). Accordingly, one might argue, the "buttons" used to operate a computer program are not like the buttons used to operate a VCR, for they are not subject to a useful-article exception. The response, of

course, is that the arrangement of buttons on a VCR would not be copyrightable even without a useful-article exception, because the buttons are an uncopyrightable "method of operation." Similarly, the "buttons" of a computer program are also an uncopyrightable "method of operation."

[13] That the Lotus menu command hierarchy is a "method of operation" becomes clearer when one considers program compatibility. Under Lotus's theory, if a user uses ***818** several different programs, he or she must learn how to perform the same operation in a different way for each program used. For example, if the user wanted the computer to print material, then the user would have to learn not just one method of operating the computer such that it prints, but many different methods. We find this absurd. The fact that there may be many different ways to operate a computer program, or even many different ways to operate a computer program using a set of hierarchically arranged command terms, does not make the actual method of operation chosen copyrightable; it still functions as a method for operating the computer and as such is uncopyrightable.

Consider also that users employ the Lotus menu command hierarchy in writing macros. Under the district court's holding, if the user wrote a macro to shorten the time needed to perform a certain operation in Lotus 1-2-3, the user would be unable to use that macro to shorten the time needed to perform that same operation in another program. Rather, the user would have to rewrite his or her macro using that other program's menu command hierarchy. This is despite the fact that the macro is clearly the user's own work product. We think that forcing the user to cause the computer to perform the same operation in a different way ignores Congress's direction in § 102(b) that "methods of operation" are not copyrightable. That programs can offer users the ability to write macros in many different ways does not change the fact that, once written, the macro allows the user to

perform an operation automatically. As the Lotus menu command hierarchy serves as the basis for Lotus 1-2-3 macros, the Lotus menu command hierarchy is a "method of operation."

[14] In holding that expression that is part of a "method of operation" cannot be copyrighted, we do not understand ourselves to go against the Supreme Court's holding in *Feist*. In *Feist*, the Court explained:

The primary objective of copyright is not to reward the labor of authors, but to promote the Progress of Science and useful Arts. To this end, copyright assures authors the right to their original expression, but encourages others to build freely upon the ideas and information conveyed by a work. *Feist*, 499 U.S. at 349-50, 111 S.Ct. at 1290 (quotations and citations omitted). We do not think that the Court's statement that "copyright assures authors the right to their original expression" indicates that all expression is necessarily copyrightable; while original expression is necessary for copyright protection, we do not think that it is alone sufficient. Courts must still inquire whether original expression falls within one of the categories foreclosed from copyright protection by § 102(b), such as being a "method of operation."

We also note that in most contexts, there is no need to "build" upon other people's expression, for the ideas conveyed by that expression can be conveyed by someone else without copying the first author's expression. [FN13] In the context of methods of operation, however, "building" requires the use of the precise method of operation already employed; otherwise, "building" would require dismantling, too. Original developers are not the only people entitled to build on the methods of operation they create; anyone can. Thus, Borland may build on the method of operation that Lotus designed and may use the Lotus menu command hierarchy in doing so.

FN13. When there are a limited number of ways to express an idea,

however, the expression "merges" with the idea and becomes uncopyrightable. *Morrissey*, 379 F.2d at 678-79.

Our holding that methods of operation are not limited to abstractions goes against *Autoskill*, 994 F.2d at 1495 n. 23, in which the Tenth Circuit rejected the defendant's argument that the keying procedure used in a computer program was an uncopyrightable "procedure" or "method of operation" under § 102(b). The program at issue, which was designed to test and train students with reading deficiencies, *id.* at 1481, required students to select responses to the program's queries "by pressing the 1, 2, or 3 keys." *Id.* at 1495 n. 23. The Tenth Circuit held that, "for purposes of the preliminary injunction, ... the record showed that [this] keying procedure reflected at least a minimal degree *819 of creativity," as required by *Feist* for copyright protection. *Id.* As an initial matter, we question whether a programmer's decision to have users select a response by pressing the 1, 2, or 3 keys is original. More importantly, however, we fail to see how "a student select[ing] a response by pressing the 1, 2, or 3 keys," *id.*, can be anything but an unprotectable method of operation. [FN14]

FN14. The Ninth Circuit has also indicated in dicta that "menus, and keystrokes" may be copyrightable. *Brown Bag Software v. Symantec Corp.*, 960 F.2d 1465, 1477 (9th Cir.), cert. denied, *BB Asset Management, Inc. v. Symantec Corp.*, 506 U.S. 869, 113 S.Ct. 198, 121 L.Ed.2d 141 (1992). In that case, however, the plaintiff did not show that the defendant had copied the plaintiff's menus or keystrokes, so the court was not directly faced with whether the menus or keystrokes constituted an unprotectable method of operation. *Id.*

III.

Conclusion

Because we hold that the Lotus menu command hierarchy is uncopyrightable subject matter, we further hold that Borland did not infringe Lotus's copyright by copying it. Accordingly, we need not consider any of Borland's affirmative defenses. The judgment of the district court is

Reversed.

BOUDIN, Circuit Judge, concurring.

The importance of this case, and a slightly different emphasis in my view of the underlying problem, prompt me to add a few words to the majority's tightly focused discussion.

I.

Most of the law of copyright and the "tools" of analysis have developed in the context of literary works such as novels, plays, and films. In this milieu, the principal problem--simply stated, if difficult to resolve--is to stimulate creative expression without unduly limiting access by others to the broader themes and concepts deployed by the author. The middle of the spectrum presents close cases; but a "mistake" in providing too much protection involves a small cost: subsequent authors treating the same themes must take a few more steps away from the original expression.

The problem presented by computer programs is fundamentally different in one respect. The computer program is a means for causing something to happen; it has a mechanical utility, an instrumental role, in accomplishing the world's work. Granting protection, in other words, can have some of the consequences of patent protection in limiting other people's ability to perform a task in the most efficient manner. Utility does not bar copyright (dictionaries may be copyrighted), but it alters the calculus.

Of course, the argument for protection is undiminished, perhaps even enhanced, by utility: if we want more of an intellectual product, a temporary monopoly for the creator provides incentives for others to create other, different items in this class.

But the "cost" side of the equation may be different where one places a very high value on public access to a useful innovation that may be the most efficient means of performing a given task. Thus, the argument for extending protection may be the same; but the stakes on the other side are much higher.

It is no accident that patent protection has preconditions that copyright protection does not--notably, the requirements of novelty and non-obviousness--and that patents are granted for a shorter period than copyrights. This problem of utility has sometimes manifested itself in copyright cases, such as *Baker v. Selden*, 101 U.S. 99, 25 L.Ed. 841 (1879), and been dealt with through various formulations that limit copyright or create limited rights to copy. But the case law and doctrine addressed to utility in copyright have been brief detours in the general march of copyright law.

Requests for the protection of computer menus present the concern with fencing off access to the commons in an acute form. A new menu may be a creative work, but over time its importance may come to reside more in the investment that has been made by users in learning the menu and in building their own mini- programs--macros--in reliance upon the menu. Better typewriter keyboard *820 layouts may exist, but the familiar QWERTY keyboard dominates the market because that is what everyone has learned to use. See P. David, *CLIO and the Economics of QWERTY*, 75 Am.Econ.Rev. 332 (1985). The QWERTY keyboard is nothing other than a menu of letters.

Thus, to assume that computer programs are just one more new means of expression, like a filmed play, may be quite wrong. The "form"--the written source code or the menu structure depicted on the screen--look hauntingly like the familiar stuff of copyright; but the "substance" probably has more to do with problems presented in patent law or, as already noted, in those rare cases where copyright law has confronted industrially useful expressions. Applying copyright law

to computer programs is like assembling a jigsaw puzzle whose pieces do not quite fit.

All of this would make no difference if Congress had squarely confronted the issue, and given explicit directions as to what should be done. The Copyright Act of 1976 took a different course. While Congress said that computer programs might be subject to copyright protection, it said this in very general terms; and, especially in § 102(b), Congress adopted a string of exclusions that if taken literally might easily seem to exclude most computer programs from protection. The only detailed prescriptions for computers involve narrow issues (like back-up copies) of no relevance here.

Of course, one could still read the statute as a congressional command that the familiar doctrines of copyright law be taken and applied to computer programs, in cookie cutter fashion, as if the programs were novels or play scripts. Some of the cases involving computer programs embody this approach. It seems to be mistaken on two different grounds: the tradition of copyright law, and the likely intent of Congress.

The broad-brush conception of copyright protection, the time limits, and the formalities have long been prescribed by statute. But the heart of copyright doctrine--what may be protected and with what limitations and exceptions--has been developed by the courts through experience with individual cases. B. Kaplan, *An Unhurried View of Copyright* 40 (1967). Occasionally Congress addresses a problem in detail. For the most part the interstitial development of copyright through the courts is our tradition.

Nothing in the language or legislative history of the 1976 Act, or at least nothing brought to our attention, suggests that Congress meant the courts to abandon this case-by-case approach. Indeed, by setting up § 102(b) as a counterpoint theme, Congress has arguably recognized the tension and left it for the courts to resolve through the

development of case law. And case law development is adaptive: it allows new problems to be solved with help of earlier doctrine, but it does not preclude new doctrines to meet new situations.

II.

In this case, the raw facts are mostly, if not entirely, undisputed. Although the inferences to be drawn may be more debatable, it is very hard to see that Borland has shown any interest in the Lotus menu except as a fall-back option for those users already committed to it by prior experience or in order to run their own macros using 1-2-3 commands. At least for the amateur, accessing the Lotus menu in the Borland Quattro or Quattro Pro program takes some effort.

Put differently, it is unlikely that users who value the Lotus menu for its own sake--independent of any investment they have made themselves in learning Lotus' commands or creating macros dependent upon them--would choose the Borland program in order to secure access to the Lotus menu. Borland's success is due primarily to other features. Its rationale for deploying the Lotus menu bears the ring of truth.

Now, any use of the Lotus menu by Borland is a commercial use and deprives Lotus of a portion of its "reward," in the sense that an infringement claim if allowed would increase Lotus' profits. But this is circular reasoning: broadly speaking, every limitation on copyright or privileged use diminishes the reward of the original creator. Yet not every writing is copyrightable or every use an infringement. The provision of reward is *821 one concern of copyright law, but it is not the only one. If it were, copyrights would be perpetual and there would be no exceptions.

The present case is an unattractive one for copyright protection of the menu. The menu commands (e.g., "print," "quit") are largely for standard procedures that Lotus did not

invent and are common words that Lotus cannot monopolize. What is left is the particular combination and sub-grouping of commands in a pattern devised by Lotus. This arrangement may have a more appealing logic and ease of use than some other configurations; but there is a certain arbitrariness to many of the choices.

If Lotus is granted a monopoly on this pattern, users who have learned the command structure of Lotus 1-2-3 or devised their own macros are locked into Lotus, just as a typist who has learned the QWERTY keyboard would be the captive of anyone who had a monopoly on the production of such a keyboard. Apparently, for a period Lotus 1-2-3 has had such sway in the market that it has represented the de facto standard for electronic spreadsheet commands. So long as Lotus is the superior spreadsheet--either in quality or in price--there may be nothing wrong with this advantage.

But if a better spreadsheet comes along, it is hard to see why customers who have learned the Lotus menu and devised macros for it should remain captives of Lotus because of an investment in learning made by the users and not by Lotus. Lotus has already reaped a substantial reward for being first; assuming that the Borland program is now better, good reasons exist for freeing it to attract old Lotus customers: to enable the old customers to take advantage of a new advance, and to reward Borland in turn for making a better product. If Borland has not made a better product, then customers will remain with Lotus anyway.

Thus, for me the question is not whether Borland should prevail but on what basis. Various avenues might be traveled, but the main choices are between holding that the menu is not protectable by copyright and devising a new doctrine that Borland's use is privileged. No solution is perfect and no intermediate appellate court can make the final choice.

To call the menu a "method of operation" is, in the common use of those words, a defensible position. After all, the purpose of the menu is not to be admired as a work of literary or pictorial art. It is to transmit directions from the user to the computer, i.e., to operate the computer. The menu is also a "method" in the dictionary sense because it is a "planned way of doing something," an "order or system," and (aptly here) an "orderly or systematic arrangement, sequence or the like." Random House Webster's College Dictionary 853 (1991).

A different approach would be to say that Borland's use is privileged because, in the context already described, it is not seeking to appropriate the advances made by Lotus' menu; rather, having provided an arguably more attractive menu of its own, Borland is merely trying to give former Lotus users an option to exploit their own prior investment in learning or in macros. The difference is that such a privileged use approach would not automatically protect Borland if it had simply copied the Lotus menu (using different codes), contributed nothing of its own, and resold Lotus under the Borland label.

The closest analogue in conventional copyright is the fair use doctrine. E.g., *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985). Although invoked by Borland, it has largely been brushed aside in this case because the Supreme Court has said that it is "presumptively" unavailable where the use is a "commercial" one. See *id.* at 562, 105 S.Ct. at 2231-32. But see *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, ----, 114 S.Ct. 1164, 1174, 127 L.Ed.2d 500 (1994). In my view, this is something less than a definitive answer; "presumptively" does not mean "always" and, in any event, the doctrine of fair use was created by the courts and can be adapted to new purposes.

But a privileged use doctrine would certainly involve problems of its own. It might more closely tailor the limits on copyright

protection to the reasons for limiting that protection; but it would entail a host of administrative problems that would cause *822 cost and delay, and would also reduce the ability of the industry to predict outcomes. Indeed, to the extent that Lotus' menu is an important standard in the industry, it might be argued that any use ought to be deemed privileged.

In sum, the majority's result persuades me and its formulation is as good, if not better, than any other that occurs to me now as within the reach of courts. Some solutions (e.g., a very short copyright period for menus) are not options at all for courts but might be for Congress. In all events, the choices are important ones of policy, not linguistics, and they should be made with the underlying considerations in view.

116 S.Ct. 804 (Mem)
133 L.Ed.2d 610, 64 USLW 4059,
96 Cal. Daily Op. Serv. 315
(Cite as: 516 U.S. 233, 116 S.Ct. 804)

**LOTUS DEVELOPMENT
CORPORATION, petitioner, v.
BORLAND INTERNATIONAL, INC.**

No. 94-2003.

Supreme Court of the United States

Jan. 16, 1996.

Rehearing Denied March 4, 1996.
On writ of certiorari to the United States
Court of Appeals for the First Circuit.

PER CURIAM.

The judgment of the United States Court of
Appeals for the First Circuit is affirmed by an
equally divided Court.

Justice STEVENS took no part in the
consideration or decision of this case.

Subject Matter -- Fixation -- Copyright and Competition

991 F.2d 511
61 USLW 2633,
1993 Copr.L.Dec. P 27,096,
26 U.S.P.Q.2d 1458
(Cite as: 991 F.2d 511)

**MAI SYSTEMS CORPORATION, a
Delaware corporation, Plaintiff-Appellee,
v.
PEAK COMPUTER, INC., a California
corporation; Vincent Chiechi, an
individual; Eric Francis, an individual,
Defendants-Appellants.
Nos. 92-55363, 93-55106.**

United States Court of Appeals,
Ninth Circuit.

Argued and Submitted June 4, 1992 in No.
92-55363.

The panel unanimously finds this case
suitable for decision without oral argument.
Fed.R.App.P. 34(a); Ninth Circuit Rule 34-4.
Decided April 7, 1993.

Appeal from the United States District Court
for the Central District of California.

BEFORE: PREGERSON, BRUNETTI, and
FERNANDEZ, Circuit Judges.

BRUNETTI, Circuit Judge:

Peak Computer, Inc. and two of its
employees appeal the district court's order
issuing a preliminary injunction pending trial
as well as the district court's order issuing a
permanent injunction following the grant of
partial summary judgment.

I. FACTS

MAI Systems Corp., until recently,
manufactured computers and designed
software to run those computers. The
company continues to service its computers
and the software necessary to operate the
computers. MAI software includes operating
system software, which is necessary to run
any other program on the computer.

Peak Computer, Inc. is a company organized
in 1990 that maintains computer systems for
its clients. Peak maintains MAI computers for
more than one hundred clients in Southern
California. This accounts for between fifty and
seventy percent of Peak's business.

Peak's service of MAI computers includes
routine maintenance and emergency repairs.
Malfunctions often are related to the failure of
circuit boards inside the computers, and it
may be necessary for a Peak technician to
operate the computer and its operating
system software in order to service the
machine.

In August, 1991, Eric Francis left his job as
customer service manager at MAI and joined
Peak. Three other MAI employees joined
Peak a short time later. Some businesses
that had been using MAI to service their
computers switched to Peak after learning of
Francis's move.

II. PROCEDURAL HISTORY

On March 17, 1992, MAI filed suit in the
district court against Peak, Peak's president
Vincent Chiechi, and Francis. The complaint
includes counts alleging copyright
infringement, misappropriation of trade
secrets, trademark infringement, false
advertising, and unfair competition.

MAI asked the district court for a temporary
restraining order and preliminary injunction
pending the outcome of the suit. The district
court issued a temporary restraining order on
March 18, 1992 and converted it to a
preliminary injunction on March 26, 1992. On
April 15, 1992, the district court issued a
written version of the preliminary injunction
along with findings of fact and conclusions of
law.

The preliminary injunction reads as follows:

A. Defendants [and certain others] are
hereby immediately restrained and enjoined
pending trial of this action from:

1. infringing MAI's copyrights in any manner
and from using, publishing, copying, selling,
distributing or otherwise disposing *514 of

any copies or portions of copies of the following MAI copyrighted computer program packages: "MPx," "SPx," "GPx40," and "GPx70" (collectively hereinafter, "The Software");

2. misappropriating, using in any manner in their business including advertising connected therewith, and/or disclosing to others MAI's trade secrets and confidential information, including, without limitation, The Software, MAI's Field Information Bulletins ("FIB") and Customer Database;

3. maintaining any MAI computer system, wherein:

(a) "maintaining" is defined as the engaging in any act, including, without limitation, service, repair, or upkeep in any manner whatsoever, that involves as part of such act, or as a preliminary or subsequent step to such act, the use, directly or indirectly, of The Software, including, without limitation, MAI's operating system, diagnostic, utility, or other software;

(b) "use" is defined as including, without limitation, the acts of running, loading, or causing to be run or loaded, any MAI software from any magnetic storage or read-only-memory device into the computer memory of the central processing unit of the computer system; and

(c) "computer system" is defined as an MAI central processing unit in combination with either a video display, printer, disk drives, and/or keyboard;

4. soliciting any MAI computer maintenance customer pursuant to Francis' employment contracts with MAI;

5. maintaining any contract where customer information was obtained by Francis while employed by MAI pursuant to Francis' employment contract with MAI;

6. using in any manner in their business, or in advertising connected therewith, directly or indirectly, the trademarks MAI, BASIC FOUR, and/or MAI Basic Four, the letters MAI (collectively, the "MAI Trademarks") or any mark, word, or name similar to or in combination with MAI's marks that are likely to cause confusion, mistake or to deceive;

7. committing any act which otherwise infringes any of the MAI Trademarks;

8. advertising, directly or indirectly, that MAI Basic Four is part of Peak's Product line, that Peak has "satellite facilities," and/or that Peak's technicians are "specifically trained on the latest hardware releases of MAI;" and

9. engaging in any other acts that amount to unfair competition with MAI.

B. IT IS FURTHER ORDERED that Defendants [and certain others] shall hereby, pending trial in this action:

1. provide a full accounting of all MAI property, including all copyrighted works presently in their possession; and

2. retain any fees paid to them by any MAI maintenance client and place any such fees in an interest bearing escrow account pending final determination of the action at trial or further order of this Court.

We stayed the preliminary injunction in part by an order of June 9, 1992 which provides:

The preliminary injunction issued by the district court on April 15, 1992 is stayed to the following extent:

Section (A)(1), enjoining defendants from "infringing MAI's copyrights in any manner and from using, publishing, copying, selling, distributing, or otherwise disposing of any copies or portions of copies" or certain MAI software, is stayed to the extent that it prohibits defendants from operating MAI computers in order to maintain them.

Section A(2), enjoining defendants from misappropriating MAI trade secrets, is stayed to the extent that it prohibits defendants from operating MAI computers in order to maintain them.

Section A(3), enjoining defendants from "maintaining any MAI computer system," is stayed in its entirety, including subsections (a), (b), and (c).

Section (B), ordering defendants to "provide a full accounting of all MAI property" and to retain fees paid to them *515 by "any MAI maintenance client" in an escrow account, is stayed in its entirety, including subsections (1) and (2).

The remainder of the district court's preliminary injunction shall remain in effect. This order shall remain in effect pending further order of this court.

In January, 1993, we denied a motion by Peak to stay the district court proceedings. The district court then heard a motion for partial summary judgment on some of the same issues raised in the preliminary injunction. The district court granted partial summary judgment for MAI and entered a permanent injunction on the issues of copyright infringement and misappropriation of trade secrets on February 2, 1993 which provides:

A. Defendants [and certain others] are hereby permanently enjoined as follows:

1. Peak [and certain others] are permanently enjoined from copying, disseminating, selling, publishing, distributing, loaning, or otherwise infringing MAI's copyrighted works, or any derivatives thereof, including those works for which registrations have issued, and works for which registrations may issue in the future. The "copying" enjoined herein specifically includes the acts of loading, or causing to be loaded, directly or indirectly, any MAI software from any magnetic storage or read only memory device into the electronic random access memory of the central processing unit of a computer system. As used herein, "computer system" means an MAI central processing unit in combination with either a video display, printer, disk drives, and/or keyboard.

2. (a) Peak and Francis [and certain others] are permanently enjoined from misappropriating, using in any manner in their business, including advertising connected therewith, and/or disclosing to others MAI's trade secrets, as that term is used in California Civil Code § 3426.1(d). MAI's trade secrets, for purposes of this injunction, shall include, but not be limited to the following: MAI's software, MAI's Field Information Bulletins ("FIB") and all information in such FIB's, and MAI Customer Database and all information in such Database.

(b) In particular, the persons identified in subparagraph (a) herein are permanently enjoined from soliciting any MAI computer maintenance customer and from maintaining any contract with any former

MAI computer maintenance customer where knowledge of any such customers was obtained by Francis during his employment with MAI.....

III. JURISDICTION AND STANDARD OF REVIEW

We have jurisdiction over interlocutory orders granting injunctions under 28 U.S.C. § 1292(a)(1).

In addition, an appeal under 28 U.S.C. § 1292(a)(1) brings before the court the entire order, and, in the interests of judicial economy the court may decide the merits of the case. The court, however, generally will chose to decide only those matters 'inextricably bound up with' the injunctive relief.

Bernard v. Air Line Pilots Ass'n, Int'l, AFL-CIO, 873 F.2d 213, 215 (9th Cir.1989) (citations omitted).

In this case, the district court's grant of the permanent injunction is "inextricably bound up" with the underlying decisions of that court on the merits of the copyright and trade secrets claims. Therefore, our review of the propriety of the permanent injunction is inextricably tied to the underlying decision, and this court has jurisdiction to review the entire order. *Id.*

IV. COPYRIGHT INFRINGEMENT

The district court granted summary judgment in favor of MAI on its claims of copyright infringement and issued a permanent injunction against Peak on these claims. The alleged copyright violations include: (1) Peak's running of MAI software licenced to Peak customers; (2) Peak's use of unlicensed software at its headquarters; and, (3) Peak's loaning of MAI computers and software to its customers. Each of these alleged violations must be considered separately.

A. Peak's running of MAI software licenced to Peak customers

[1] To prevail on a claim of copyright infringement, a plaintiff must prove ownership of a copyright and a "'copying' of protectable expression" beyond the scope of a license. *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 (9th Cir.1989).

MAI software licenses allow MAI customers to use the software for their own internal information processing. [FN3] This allowed use necessarily includes the loading of the software into the computer's random access memory ("RAM") by a MAI customer. However, MAI software licenses do not allow for the use or copying of MAI software by third parties such as Peak. Therefore, any "copying" done by Peak is "beyond the scope" of the license.

FN3. A representative MAI software license provides in part:

4. Software License.

(a) License.... Customer may use the Software (one version with maximum of two copies permitted--a working and a backup copy) ... solely to fulfill Customer's own internal information processing needs on the particular items of Equipment ... for which the Software is configured and furnished by [MAI]. The provisions of this License ... shall apply to all versions and copies of the Software furnished to Customer pursuant to this Agreement. The term "Software" includes, without limitation, all basic operating system software....

(b) Customer Prohibited Acts.... Any possession or use of the Software ... not expressly authorized under this License or any act which might jeopardize [MAI]'s rights or interests in the Software ... is prohibited, including without limitation, examination, disclosure, copying, modification, reconfiguration, augmentation, adaptation, emulation, visual display or reduction to visually perceptible form or tampering....

(c) Customer Obligations. Customer acknowledges that the Software is [MAI]'s valuable and exclusive property, trade secret and copyrighted material. Accordingly, Customer shall ... (i) use the Software ... strictly as prescribed under this License, (ii) keep the Software ...

confidential and not make [it] available to others....

A representative diagnostic license agreement provides in part:

6. Access/Non-Disclosure.

Licensee shall not give access nor shall it disclose the Diagnostics (in any form) ... to any person ... without the written permission of [MAI]. Licensee may authorize not more than three (3) of its bona fide employees to utilize the Diagnostics ... if, and only if, they agree to be bound by the terms hereof.

It is not disputed that MAI owns the copyright to the software at issue here, however, Peak vigorously disputes the district court's conclusion that a "copying" occurred under the Copyright Act.

The Copyright Act defines "copies" as:

material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.

17 U.S.C. § 101.

The Copyright Act then explains:

A work is "fixed" in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated *518 for a period of more than transitory duration.

17 U.S.C. § 101.

[2] The district court's grant of summary judgment on MAI's claims of copyright infringement reflects its conclusion that a "copying" for purposes of copyright law occurs when a computer program is transferred from a permanent storage device to a computer's RAM. This conclusion is consistent with its finding, in granting the preliminary injunction, that: "the loading of copyrighted computer software from a storage medium (hard disk, floppy disk, or read only memory) into the memory of a central processing unit ("CPU") causes a

copy to be made. In the absence of ownership of the copyright or express permission by license, such acts constitute copyright infringement." We find that this conclusion is supported by the record and by the law.

Peak concedes that in maintaining its customer's computers, it uses MAI operating software "to the extent that the repair and maintenance process necessarily involves turning on the computer to make sure it is functional and thereby running the operating system." It is also uncontroverted that when the computer is turned on the operating system is loaded into the computer's RAM. As part of diagnosing a computer problem at the customer site, the Peak technician runs the computer's operating system software, allowing the technician to view the systems error log, which is part of the operating system, thereby enabling the technician to diagnose the problem. [FN4]

FN4. MAI also alleges that Peak runs its diagnostic software in servicing MAI computers. Since Peak's running of the operating software constitutes copyright violation, it is not necessary for us to directly reach the issue of whether Peak also runs MAI's diagnostic software. However, we must note that Peak's field service manager, Charles Weiner, admits that MAI diagnostic software is built into the MAI MPx system and, further, that if Peak loads the MAI diagnostic software from whatever source into the computer's RAM, that such loading will produce the same copyright violation as loading the operating software.

[3] Peak argues that this loading of copyrighted software does not constitute a copyright violation because the "copy" created in RAM is not "fixed." However, by showing that Peak loads the software into the RAM and is then able to view the system error log and diagnose the problem with the computer, MAI has adequately shown that the representation created in the RAM is "sufficiently permanent

or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration."

After reviewing the record, we find no specific facts (and Peak points to none) which indicate that the copy created in the RAM is not fixed. While Peak argues this issue in its pleadings, mere argument does not establish a genuine issue of material fact to defeat summary judgment. A party opposing a properly supported motion for summary judgment may not rest upon the mere allegations or denials in pleadings, but "must set forth specific facts showing that there is a genuine issue for trial." Fed.R.Civ.Proc. 56(e); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S.Ct. 2505, 2510, 91 L.Ed.2d 202 (1986); *Harper v. Wallingford*, 877 F.2d 728 (9th Cir.1989).

The law also supports the conclusion that Peak's loading of copyrighted software into RAM creates a "copy" of that software in violation of the Copyright Act. In *Apple Computer, Inc. v. Formula Int'l, Inc.*, 594 F.Supp. 617, 621 (C.D.Cal.1984), the district court held that the copying of copyrighted software onto silicon chips and subsequent sale of those chips is not protected by § 117 of the Copyright Act. Section 117 allows "the 'owner' [FN5] of a copy of a computer program to make or authorize the making of another copy" without infringing copyright law, if it "is an essential step in the utilization of the computer program" or if the new copy is "for archival purposes *519 only." 17 U.S.C. § 117 (Supp.1988). [FN6] One of the grounds for finding that § 117 did not apply was the court's conclusion that the permanent copying of the software onto the silicon chips was not an "essential step" in the utilization of the software because the software could be used through RAM without making a permanent copy. The court stated:

FN5. Since MAI licensed its software, the Peak customers do not qualify as "owners" of the software and are not eligible for protection under § 117.

FN6. The current § 117 was enacted by Congress in 1980, as part of the

Computer Software Copyright Act. This Act adopted the recommendations contained in the Final Report of the National Commission on New Technological Uses of Copyrighted Works ("CONTU") (1978). H.R.Rep. No. 1307, 96th Cong., 2d Sess., pt. 1, at 23. The CONTU was established by Congress in 1974 to perform research and make recommendations concerning copyright protection for computer programs. The new § 117 reflects the CONTU's conclusion that: "Because the placement of a work into a computer is the preparation of a copy, the law should provide that persons in rightful possession of copies of programs be able to use them freely without fear of exposure to copyright liability." Final Report at 13.

RAM can be simply defined as a computer component in which data and computer programs can be temporarily recorded. Thus, the purchaser of [software] desiring to utilize all of the programs on the diskette could arrange to copy [the software] into RAM. This would only be a temporary fixation. It is a property of RAM that when the computer is turned off, the copy of the program recorded in RAM is lost.

Apple Computer at 622.

While we recognize that this language is not dispositive, it supports the view that the copy made in RAM is "fixed" and qualifies as a copy under the Copyright Act.

We have found no case which specifically holds that the copying of software into RAM creates a "copy" under the Copyright Act. However, it is generally accepted that the loading of software into a computer constitutes the creation of a copy under the Copyright Act. See e.g. *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 260 (5th Cir.1988) ("the act of loading a program from a medium of storage into a computer's memory creates a copy of the program"); 2 *Nimmer on Copyright*, § 8.08 at 8-105 (1983) ("Inputting a computer program entails the

preparation of a copy."); Final Report of the National Commission on the New Technological Uses of Copyrighted Works, at 13 (1978) ("the placement of a work into a computer is the preparation of a copy"). We recognize that these authorities are somewhat troubling since they do not specify that a copy is created regardless of whether the software is loaded into the RAM, the hard disk or the read only memory ("ROM"). However, since we find that the copy created in the RAM can be "perceived, reproduced, or otherwise communicated," we hold that the loading of software into the RAM creates a copy under the Copyright Act. 17 U.S.C. § 101. We affirm the district court's grant of summary judgment as well as the permanent injunction as it relates to this issue.

B. Use of unlicensed software at headquarters

[4] It is not disputed that Peak has several MAI computers with MAI operating software "up and running" at its headquarters. It is also not disputed that Peak only has a license to use MAI software to operate one system. As discussed above, we find that the loading of MAI's operating software into RAM, which occurs when an MAI system is turned on, constitutes a copyright violation. We affirm the district court's grant of summary judgment in favor of MAI on its claim that Peak violated its copyright through the unlicensed use of MAI software at Peak headquarters, and also affirm the permanent injunction as it relates to this issue.

C. Loaning of MAI computers and software

[5] MAI contends that Peak violated the Copyright Act by loaning MAI computers and software to its customers. Among the exclusive rights given to the owner of a copyrighted work is the right to distribute copies of the work by lending. 17 U.S.C. § 106(3). Therefore, Peak's loaning of MAI software, if established, would constitute a violation of the Copyright Act.

***520** [6] MAI argues that it is clear that Peak loaned out MAI computers because Peak

advertisements describe the availability of loaner computers for its customers and Chiechi admitted that the available loaners included MAI computers. However, there was no evidence that a MAI computer was ever actually loaned to a Peak customer. Paul Boulanger, a Senior Field Engineer at Peak, testified in his deposition that he was not aware of any MAI systems being loaned to Peak customers or of any customer asking for one. Charles Weiner, a Field Service Manager at Peak, testified in his deposition that he did not have any knowledge of MAI systems being loaned to customers. Weighing this evidence in the light most favorable to Peak, whether Peak actually loaned out any MAI system remains a genuine issue of material fact.

[7][8] As a general rule, a permanent injunction will be granted when liability has been established and there is a threat of continuing violations. See, *National Football League v. McBee & Bruno's, Inc.*, 792 F.2d 726, 732 (8th Cir.1986); 3 Nimmer on Copyright § 14.06[B] at 14-88. However § 502(a) of the Copyright Act authorizes the court to "grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright." 17 U.S.C. § 502(a) (emphasis added). While there has been no showing that Peak has actually loaned out any MAI software, the threat of a violation is clear as Peak has MAI computers in its loaner inventory. The permanent injunction is upheld as it relates to this issue.

V. MISAPPROPRIATION OF TRADE SECRETS

[9] The district court granted summary judgment in favor of MAI on its misappropriation of trade secrets claims and issued a permanent injunction against Peak on these claims. The permanent injunction prohibits Peak from "misappropriating, using in any manner in their business, including advertising connected therewith, and/or disclosing to others MAI's trade secrets," including: (1) MAI Customer Database; (2)

MAI Field Information Bulletins ("FIB"); and, (3) MAI software.

Peak argues that since MAI's motion for summary judgment only included argument regarding the customer database as a trade secret that the grant of summary judgment on the FIBs and software was overbroad. However, in *Celotex Corp. v. Catrett*, 477 U.S. 317, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986), the Supreme Court held that "so long as the losing party was on notice that she had to come forward with all of her evidence," summary judgment can properly be entered. *Id.* at 326, 106 S.Ct. at 2554. Although *Celotex* dealt with the court's authority to grant summary judgment sua sponte, its notice analysis is applicable to any summary judgment motion.

MAI argues that Peak had adequate notice because, while MAI only presented argument regarding the customer database, it moved for summary judgment on its claims of misappropriation of trade secrets generally, and, because MAI's Statement of Uncontroverted Facts included statements that the FIBs and software were trade secrets. We agree. However, we do not agree with MAI's contention that Peak has waived its right to appeal summary judgment on these issues by failing address the merits in the district court. Therefore, we reach the merits of the grant of summary judgment on each trade secret claim.

A. Customer Database

California has adopted the Uniform Trade Secrets Act ("UTSA") which codifies the basic principles of common law trade secret protection. Cal.Civ.Code §§ 3426-3426.10 (West Supp.1993). To establish a violation under the UTSA, it must be shown that a defendant has been unjustly enriched by the improper appropriation, use or disclosure of a "trade secret."

Peak argues both that the MAI Customer Database is not a "trade secret," and that even if it is a trade secret, that Peak did not "misappropriate" it.

The UTSA defines a "trade secret" as:

***521** 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 Supp.1993).

MAI contends its Customer Database is a valuable collection of data assembled over many years that allows MAI to tailor its service contracts and pricing to the unique needs of its customers and constitutes a trade secret.

[10][11] We agree that the Customer Database qualifies as a trade secret. The Customer Database has potential economic value because it allows a competitor like Peak to direct its sales efforts to those potential customers that are already using the MAI computer system. Further, MAI took reasonable steps to insure the secrecy to this information as required by the UTSA. MAI required its employees to sign confidentiality agreements respecting its trade secrets, including the Customer Database. Thus, under the UTSA, the MAI Customer Database constitutes a trade secret.

We also agree with MAI that the record before the district court on summary judgment establishes that Peak misappropriated the Customer Database.

"Misappropriation" is defined under the UTSA 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; [FN7] or

FN7. The UTSA defines "improper means," as "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage

through electronic or other means." Cal.Civ.Code § 3426.1(a) (West Supp.1993).

- (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; (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 by mistake.

Cal.Civ.Code § 3426.1(b) (West Supp.1993).

Peak contends that Francis never physically took any portion of MAI's customer database and that neither Francis nor anyone under his direction put information he had obtained from working at MAI in the Peak database. However, to find misappropriation under the UTSA, this need not be established.

[12] The UTSA definition of "misappropriation" has been clarified by case law which establishes that the right to announce a new affiliation, even to trade secret clients of a former employer, is basic to an individual's right to engage in fair competition, and that the common law right to compete fairly and the right to announce a new business affiliation have survived the enactment of the UTSA. *American Credit Indem. Co. v. Sacks*, 213 Cal.App.3d 622, 262 Cal.Rptr. 92, 99-100 (Cal.Ct.App.1989). However, misappropriation occurs if information from a customer database is used to solicit customers. *Id.*

[13] Merely informing a former employer's customers of a change of employment,

without more, is not solicitation. *Id.* 262 Cal.Rptr. at 99 (citing *Aetna Bldg. Maintenance Co. v. West*, 39 Cal.2d 198, 246 P.2d 11 (1952)). However, in this case, Francis did more than merely announce his new affiliation with Peak. When Francis began *522 working for Peak, he called MAI customers whose names he recognized. Additionally, Francis personally went to visit some of these MAI customers with proposals to try and get them to switch over to Peak. These actions constituted solicitation and misappropriation under the UTSA definition. We affirm the district court's grant of summary judgment in favor of MAI on its claim that Peak misappropriated its Customer Database and affirm the permanent injunction as it relates to this issue.

B. Field Information Bulletins

MAI argues summary judgment was properly granted on its claim of misappropriation of the FIBs because the FIBs are a valuable trade secret of MAI and the evidence showed that the FIBs were being used by Peak to operate a business competing unfairly with MAI.

[14] We agree that the FIBs constitute trade secrets. It is uncontroverted that they contain technical data developed by MAI to aid in the repair and servicing of MAI computers, and that MAI has taken reasonable steps to insure that the FIBs are not generally known to the public.

[15] However, whether Peak has misappropriated the FIBs remains a genuine issue of material fact. The only evidence introduced by MAI to establish Peak's use of the FIBs is Peak's advertisements claiming that "Peak's system specialists are specifically trained on the latest hardware releases on MAI Basic Four." MAI asserts that if Peak did not use FIBs that this claim would have to be false. However, Weiner and Boulanger testified in their depositions that they had never seen a FIB at Peak. Similarly, Boulanger, Robert Pratt and Michael McIntosh [FN8] each testified that they did not have any FIB information when they left MAI. Weighing this evidence in the light most favorable to

Peak, whether Peak used any of the FIBs remains a genuine issue of material fact, and the district court's grant of summary judgment on this claim of trade secret misappropriation is reversed and the permanent injunction is vacated as it relates to this issue.

FN8. Pratt and Boulanger are both computer technicians who left MAI to work at Peak.

C. Software

MAI contends the district court properly granted summary judgment on its claim of misappropriation of software because its software constitutes valuable unpublished works that allow its machines to be maintained. MAI argues that Peak misappropriated the software by loading it into the RAM.

[16] We recognize that computer software can qualify for trade secret protection under the UTSA. See e.g., *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1089-90 (9th Cir.1989). However, a plaintiff who seeks relief for misappropriation of trade secrets must identify the trade secrets and carry the burden of showing that they exist. *Diodes, Inc. v. Franzen*, 260 Cal.App.2d 244, 67 Cal.Rptr. 19, 22-24 (1968); see also *Universal Analytics Inc. v. MacNeal-Schwendler Corp.*, 707 F.Supp. 1170, 1177 (C.D.Cal.1989) (plaintiff failed to inform defendant or the court "precisely which trade secret it alleges was misappropriated"), *aff'd*, 914 F.2d 1256 (9th Cir.1990).

Here, while MAI asserts that it has trade secrets in its diagnostic software and operating system, and that its licensing agreements constitute reasonable efforts to maintain their secrecy, MAI does not specifically identify these trade secrets. In his Declaration, Joseph Perez, a Customer Service Manager at MAI, stated that the diagnostic software "contain valuable trade secrets of MAI," however, the Declaration does not specify what these trade secrets are. Additionally, we find no declaration or deposition testimony which specifically

identifies any trade secrets. Since the trade secrets are not specifically identified, we cannot determine whether Peak has misappropriated any trade secrets by running the MAI operating software and/or diagnostic software in maintaining MAI systems for its customers, and we reverse the district court's grant of summary judgment in favor of MAI on its claim that *523 Peak misappropriated trade secrets in its computer software and vacate the permanent injunction as it relates to this issue.

VI. BREACH OF CONTRACT

The district court granted summary judgment in favor of MAI on its breach of contract claim against Eric Francis. It is clear from the depositions of Francis and Chiechi that Francis solicited customers and employees of MAI in breach of his employment contract with MAI, and we affirm the district court's grant of summary judgment on this issue and affirm the permanent injunction as it relates to this claim.

VII. PRELIMINARY INJUNCTION

A. Trademark Infringement

In granting the preliminary injunction, the district court found that Peak advertisements that "MAI Basic Four" computers are part of "Peak's Product Line" imply that Peak is a MAI dealer for new computers and constitute trademark infringement. The district court also found that: "Such acts are likely to cause confusion, mistake or deception in that potential purchasers of MAI computers and/or maintenance services will be led to believe that Peak's activities are associated with or sanctioned or approved by MAI."

Peak claims that the district court erred in granting the preliminary injunction because it did not apply the legal tests established by the Ninth Circuit to evaluate whether a likelihood of confusion existed. See e.g., *J.B. Williams Co. v. Le Conte Cosmetics, Inc.*, 523 F.2d 187, 191 (9th Cir.1975) (five factor test to determine likelihood of confusion) cert. denied, 424 U.S. 913, 96 S.Ct. 1110, 47

L.Ed.2d 317 (1976); *AMF, Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348-49 (9th Cir.1979) (eight factor test). However, the district court was not required to consider all these factors. As we recognized in *Apple Computer, Inc. v. Formula Int'l, Inc.*, 725 F.2d 521 (9th Cir.1984):

[I]n granting a preliminary injunction, the parties will not have had a full opportunity to either develop or present their cases and the district court will have had only a brief opportunity to consider the different factors relative to the likelihood of confusion determination.... The appropriate time for giving full consideration to [these factors] is when the merits of the case are tried.

Id. at 526 (citations and quotations omitted).

Peak has not shown how the district court clearly erred in its preliminary trademark conclusions. Accordingly, the district court did not abuse its discretion and this portion of the preliminary injunction is upheld.

B. False Advertising

[17] In granting the preliminary injunction, the district court found that "Peak's advertising ... falsely misleads the public as to Peak's capability of servicing and maintaining MAI computer systems." The injunction prohibits Peak from "advertising, directly or indirectly, that MAI Basic Four is part of Peak's Product line, that Peak has 'satellite facilities,' and/or that Peak's technicians are 'specifically trained on the latest hardware releases of MAI.' "

Peak argues that these representations in its ads are not false. However, the district court's findings are supported by the record. Depositions show that Peak is not an authorized MAI dealer, that its technicians receive no ongoing training and that its "satellite facilities" are actually storage sheds. Perhaps the storage sheds could be legitimately characterized as satellite facilities, but the district court's conclusion otherwise was not clearly erroneous. Accordingly, the district court did not abuse its discretion and this portion of the preliminary injunction is upheld.

VIII. CONCLUSION

The following sections of the preliminary injunction issued by the district court on April 15, 1992 have been mooted by that court's issuing of a permanent injunction:

Section (A)(1), enjoining defendants from infringing MAI's copyrights; Section (A)(2) enjoining defendants from misappropriating *524 MAI trade secrets; Section (A)(3) enjoining defendants from maintaining MAI computers; Section (A)(4) enjoining defendants from soliciting customers; and, Section (A)(5) enjoining defendants from maintaining certain customer contracts.

The remainder of the district court's preliminary injunction shall remain in effect pending the district court's final judgment. Earlier orders of this court temporarily staying portions of the injunction are vacated.

The permanent injunction issued by the district court on February 2, 1993, is vacated to the following extent:

Section (A)(2)(a), enjoining defendants from "misappropriating ... MAI's trade secrets" is vacated as it relates to MAI's software and MAI's Field Information Bulletins.

The remainder of the permanent injunction shall remain in effect. Earlier orders of this court temporarily staying portions of the injunction are vacated.

The district court's grant of summary judgment is AFFIRMED in part and REVERSED in part. This case is REMANDED for proceedings consistent with this opinion.

“Leveraging Monopoly” -- Intellectual Property and the Structure of Competition

125 F.3d 1195
1997-2 Trade Cases P 71,908,
44 U.S.P.Q.2d 1065,
97 Cal. Daily Op. Serv. 7197
(Cite as: 125 F.3d 1195)

IMAGE TECHNICAL SERVICES, INC.; **
Plaintiffs-Appellees,
v.
EASTMAN KODAK CO., Defendant-
Appellant.

Nos. 96-15293, 96-15296.

United States Court of Appeals,
Ninth Circuit.

Argued and Submitted Sept. 19, 1996.

Decided Aug. 26, 1997.

Appeal from the United States District Court
for the Northern District of California; A.
Wallace Tashima, District Judge, Presiding.
D.C. No. CV-87- 01686-AWT.

Before: BEEZER and THOMPSON, Circuit
Judges, GILLMOR, District Judge. [FN*]

FN* The Honorable Helen W. Gillmor,
United States District Judge for the
District of Hawaii, sitting by
designation.

Opinion by Judge BEEZER; Partial
Concurrence and Partial Dissent by Judge
GILLMOR.

BEEZER, Circuit Judge:

Plaintiffs-Appellees Image Technical
Services, and ten other independent service
organizations ("ISOs") that service Kodak
photocopiers and micrographic equipment
sued the Eastman Kodak Co. ("Kodak") for
violations of the Sherman Act. The ISOs
alleged that Kodak used its monopoly in the
market for Kodak photocopier and
micrographic parts to create a second
monopoly in the equipment service markets.
A jury verdict awarded treble damages totaling
\$71.8 million. The district court denied

Kodak's post trial motions and entered a ten
year permanent injunction requiring Kodak to
sell "all parts" to ISOs. Kodak filed a timely
appeal, challenging the jury's verdict, the
ISOs' evidence, the jury instructions, the
damage awards and the permanent
injunction. Kodak also seeks reversal on the
basis of an alleged biased juror.

This appeal raises questions relating to the
application of antitrust principles upon a
finding that a monopolist unilaterally refused to
deal with competitors. We also address
overlapping patent and copyright issues and
their significance in the antitrust context.

We have jurisdiction pursuant to 28 U.S.C §
1291 and we affirm in part, reverse in part and
remand with instructions to amend the
injunction.

I

Kodak manufactures, sells and services high
volume photocopiers and micrographic (or
microfilm) equipment. Competition in these
markets is strong. In the photocopier market
Kodak's competitors include Xerox, IBM and
Canon. Kodak's competitors in the
micrographics market include Minolta, Bell &
Howell and 3M. Despite comparable products
in these markets, Kodak's equipment is
distinctive. Although Kodak equipment may
perform similar functions to that of its
competitors, Kodak's parts are not
interchangeable with parts used in other
manufacturers' equipment.

Kodak sells and installs replacement parts for
its equipment. Kodak competes with ISOs in
these markets. Kodak has ready access to
all parts necessary for repair services
because it manufactures many of the parts
used in its equipment and purchases the
remaining necessary parts from independent
original-equipment manufacturers. In *1201
the service market, Kodak repairs at least
80% of the machines it manufactures. ISOs
began servicing Kodak equipment in the early
1980's, and have provided cheaper and better
service at times, according to some
customers. ISOs obtain parts for repair

service from a variety of sources, including, at one time, Kodak.

As ISOs grew more competitive, Kodak began restricting access to its photocopier and micrographic parts. In 1985, Kodak stopped selling copier parts to ISOs, and in 1986, Kodak halted sales of micrographic parts to ISOs. Additionally, Kodak secured agreements from their contracted original-equipment manufacturers not to sell parts to ISOs. These parts restrictions limited the ISOs' ability to compete in the service market for Kodak machines. Competition in the service market requires that service providers have ready access to all parts.

Kodak offers annual or multi-year service contracts to its customers. Service providers generally contract with equipment owners through multi-year service contracts. ISOs claim that they were unable to provide similar contracts because they lack a reliable supply of parts. Some ISOs contend that the parts shortage forced them out of business.

In 1987, the ISOs filed this action against Kodak, seeking damages and injunctive relief for violations of the Sherman Act. The ISOs claimed that Kodak both: (1) unlawfully tied the sale of service for Kodak machines with the sale of parts in violation of § 1 of the Sherman Act, and (2) monopolized or attempted to monopolize the sale of service for Kodak machines in violation of § 2 of the Sherman Act.

Kodak moved for summary judgment prior to discovery. The district court allowed brief discovery and then granted summary judgment in Kodak's favor. *Image Technical Serv., Inc. v. Eastman Kodak Co.*, 1988 WL 156332 (N.D.Cal.). We reversed. *Image Technical Serv., Inc. v. Eastman Kodak Co.*, 903 F.2d 612 (9th Cir.1990).

Kodak appealed to the Supreme Court, which affirmed the denial of summary judgment. The Court held that the record disclosed sufficient factual disputes to survive summary judgment on both the § 1 and § 2 claims. *Eastman Kodak Co. v. Image Technical Serv.,*

Inc., 504 U.S. 451, 112 S.Ct. 2072, 119 L.Ed.2d 265 (1992). The Supreme Court also held that Kodak's lack of market power in the market for high volume photocopiers and micrographic equipment did not preclude, as a matter of law, the possibility of market power in the derivative aftermarkets for parts and service. *Id.* at 477, 112 S.Ct. at 2087. The Court recognized that resolution of other key issues required a more complete record. The Court concluded:

In the end, of course, Kodak's arguments may prove to be correct. It may be that its parts, service, and equipment are components of one unified market, or that the equipment market does discipline the aftermarkets so that all three are priced competitively overall, or that any anticompetitive effects of Kodak's behavior are outweighed by its competitive effects. But we cannot reach these conclusions as a matter of law on a record this sparse.

504 U.S. at 486, 112 S.Ct. at 2092.

After remand, the case proceeded to trial in the district court. Before closing arguments, the ISOs withdrew their § 1 tying and conspiracy claims. The remaining § 2 attempted monopolization and monopolization claims were submitted to the jury. A unanimous verdict awarded damages to the ISO's totaling \$71.8 million after trebling. Ten ISOs were awarded damages covering lost service profits in the amount of \$12,172,900 (before trebling) and six ISOs were awarded damages covering lost profits for used equipment sales totaling \$11,775,400 (before trebling).

After accepting the verdict, the district court crafted a ten year injunction requiring Kodak to sell all parts to ISOs on "reasonable and nondiscriminatory terms and prices." The injunction required Kodak to sell: (1) all parts for Kodak equipment; (2) ***1202** all parts described in Kodak's Parts Lists; (3) all parts of supply items that are field replaceable by Kodak technicians; (4) all service manuals and price lists; and (5) all tools or devices "essential to servicing Kodak equipment."

Section 2 of the Sherman Act prohibits monopolies, attempts to form monopolies, as well as combinations and conspiracies to do so. 15 U.S.C. § 2. [FN2] The ISOs presented evidence in support of two § 2 theories: attempted monopolization and monopolization. They alleged, and the jury concluded, that Kodak used its monopoly over Kodak photocopier and micrographic parts to attempt to create and actually create a second monopoly over the service markets.

FN2. Section 2 of the Sherman Act reads in relevant part: "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other persons, to monopolize any part of the trade or commerce ... [commits a felony]." 15 U.S.C. § 2.

[1][2][3] To prevail on a § 2 attempt claim, the ISOs were required to establish: "(1) a specific intent to control prices or destroy competition; (2) predatory or anticompetitive conduct directed at accomplishing that purpose; (3) a dangerous probability of achieving 'monopoly power,' and (4) causal antitrust injury." *Rebel Oil Co., Inc. v. Atlantic Richfield Co.*, 51 F.3d 1421, 1434 (9th Cir.) (citing *McGlinchy v. Shell Chem. Co.*, 845 F.2d 802, 811 (9th Cir.1988)), cert. denied, --- U.S. ---, 116 S.Ct. 515, 133 L.Ed.2d 424 (1995). The requirements of a § 2 monopolization claim are similar, differing primarily in the requisite intent and the necessary level of monopoly power. See *California Computer Products, Inc. v. International Business Machines Corp.*, 613 F.2d 727, 736-37 (9th Cir.1979). To prevail on a § 2 monopoly claim the ISOs were required to prove that Kodak: (1) possessed monopoly power in the relevant market and (2) willfully acquired or maintained that power. *Kodak*, 504 U.S. at 481, 112 S.Ct. at 2089-90 (citing *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71, 86 S.Ct. 1698, 1703-04, 16 L.Ed.2d 778 (1966)). Section 2 plaintiffs must also establish antitrust injury. See *Cost Management Services, Inc. v. Washington Natural Gas Co.*, 99 F.3d 937, 949 (9th Cir.1996).

[6] To demonstrate market power by circumstantial evidence, a plaintiff must: "(1) define the relevant market, (2) show that the defendant owns a dominant share of that market, and (3) show that there are significant barriers to entry and show that existing competitors lack the capacity to increase their output in the short run." *Id.* at 1434 (citations omitted). We review these requirements in turn.

1.

[7] We begin with the relevant market determination. The relevant market is the field in which meaningful competition is said to exist. See *United States v. Continental Can Co.*, 378 U.S. 441, 449, 84 S.Ct. 1738, 1743, 12 L.Ed.2d 953 (1964). Generally, the relevant market is defined in terms of product and geography. See *Rebel Oil*, 51 F.3d *1203 at 1434; see, e.g., *Oahu Gas Service, Inc. v. Pacific Resources, Inc.*, 838 F.2d 360, 364-65 (9th Cir.1988) (all propane sales in Hawaii). In *Rebel Oil Co., Inc. v. Atlantic Richfield Co.*, we defined "market" as the group of sellers or producers who have the "actual or potential ability to deprive each other of significant levels of business." 51 F.3d at 1434 (quoting *Thurman Industries, Inc. v. Pay 'N Pak Stores, Inc.*, 875 F.2d 1369, 1374 (9th Cir.1989)). Without a proper definition of the relevant market, it is impossible to determine a party's influence over that market. *Id.* Ultimately what constitutes a relevant market is a factual determination for the jury. *Id.* at 1435.

[8] In *Kodak*, the Supreme Court noted two guiding principles pertinent to the relevant market definition here. First, the Court held that service and parts could constitute separate markets. *Kodak*, 504 U.S. at 462-63, 481-82, 112 S.Ct. at 2079-80, 2090. Second, the Supreme Court held that a single brand could constitute a separate market. *Id.* at 482, 112 S.Ct. at 2090. Thus, as to the market for Kodak parts, the ISOs proceeded on the theory that Kodak held monopolies over two relevant parts markets: the Kodak photocopier parts market and the Kodak

micrographic parts market. Both markets, the ISOs argued, consisted of the entirety of necessary Kodak parts for that field of equipment.

[9] Kodak disagrees and argues that the district court erred in denying its renewed motion for judgment as a matter of law, because the ISOs' "all parts" market theory, upon which the jury relied to define the market, has no support in existing antitrust precedent. We review *de novo* the district court's denial of Kodak's renewed motion of judgment as a matter of law. *Acosta v. City & County of San Francisco*, 83 F.3d 1143, 1145 (9th Cir.), cert. denied, --- U.S. ---, 117 S.Ct. 514, 136 L.Ed.2d 403 (1996). We would be required to reverse the district court's denial of Kodak's motion if the evidence, construed in the light most favorable to the ISO's, permits only one reasonable conclusion, and that conclusion is contrary to that of the jury's. *Id.*

On appeal and in their renewed motion for judgment as a matter of law, Kodak proposes a segmented parts market. It argues that because no two parts are interchangeable, the relevant markets for parts consist of the market for each individual part for Kodak photocopiers and each single part for Kodak micrographics equipment. Under Kodak's theory there are not two relevant parts markets, but thousands of individual "part" markets. Kodak contends that the ISOs should have been required to demonstrate that they could not obtain particular nonpatented parts and that the failure to obtain that particular part resulted in a Kodak monopoly over service. We reject Kodak's market definition.

Kodak's market definition focuses exclusively on the interchangeability of the parts although ignoring the "commercial realities" faced by ISOs and end users. Kodak, 504 U.S. at 482, 112 S.Ct. at 2090. In *Kodak*, the Supreme Court reasoned that:

Because service and parts for Kodak equipment are not interchangeable with other manufacturers' service and parts, the relevant market from the Kodak equipment owner's perspective is composed of only

those companies that service Kodak machines.

Id. The Court also recognized however, that the market definition here could "be determined only after a factual inquiry into the 'commercial realities' faced by consumers." *Id.* (citing *Grinnell*, 384 U.S. at 572, 86 S.Ct. at 1704). Consideration of the "commercial realities" in the markets for Kodak parts compels the use of an "all parts" market theory. The "commercial reality" faced by service providers and equipment owners is that a service provider must have ready access to all parts to compete in the service market. As the relevant market for service "from the Kodak equipment owner's perspective is composed of only those companies that service Kodak machines," *id.*, the relevant market for parts from the equipment owners' and service providers' perspective is composed of "all parts" that are designed to meet Kodak photocopier and micrographics equipment specifications. The makers of these parts "if unified by a monopolist or a hypothetical cartel, would have market power in *1204 dealing with" ISOs and end users. *Rebel Oil*, 51 F.3d at 1436 (quoting *Areeda & Hovenkamp*, *Antitrust Law*, ¶ 518.1b, at 534 (Supp.1993)) (defining relevant "market").

Kodak argues that service providers' need for all parts is not pertinent to the relevant market determination. Kodak, citing *In re British Oxygen Co.*, 86 F.T.C. 1241 (1975), rev'd on other grounds, *BOC Intern., Ltd. v. F.T.C.*, 557 F.2d 24 (2nd Cir.1977), analogizes to the automotive supplies market, arguing that the fact that automobile owners need tires, oil and gasoline does not mean that these elements constitute a single relevant market. The market for Kodak parts is distinguishable. First, Kodak parts, unlike tires, oil or gasoline, are not interchangeable with parts for other brands or equipment: the market for Kodak parts is a highly limited and specialized one. Second, the commercial reality for auto parts consumers does not necessitate that a retailer of tires, for example, also sell either gasoline or oil, or both. In the market for Kodak parts, a ready supply of all parts is needed to satisfy service contracts. See,

e.g., Grinnell, 384 U.S. at 572, 86 S.Ct. at 1704 ("Central station companies recognize that to compete effectively, they must offer all or nearly all types of service."). The ISOs argue that through its anticompetitive conduct Kodak has ensured that it will possess the only inventory of all parts for Kodak high volume photocopiers and micrographic equipment.

Kodak's argument that the Supreme Court did not squarely address the relevant market issue presented here is well taken. However, nothing in the Kodak opinion indicates that the Court envisaged any relevant market other than "all parts." The Court analyzed three markets for photocopiers and micrographic equipment: equipment, parts and service. The Court referred to Kodak's "parts monopoly," 504 U.S. at 483, 112 S.Ct. at 2091, not its "parts monopolies," and nothing in the opinion suggests that the Court labored under the misconception that all parts were interchangeable.

Other factors compel our acceptance of an "all parts" market. In *Brown Shoe Co. v. United States*, the Supreme Court teaches that the boundaries of a relevant market:

may be determined by examining such practical indicia as industry or public recognition of the submarket as a separate economic entity, the product's peculiar characteristics and uses, unique production facilities, distinct customers, distinct prices, sensitivity to price changes, and specialized vendors.

370 U.S. 294, 325, 82 S.Ct. 1502, 1524, 8 L.Ed.2d 510 (1962) (defining "line of commerce" for the purposes of § 7 of the Clayton Act). [FN3] The Brown Shoe factors applied here, particularly the lack of consumer recognition of individual part markets, the unique and specialized nature of the equipment and the singular use of "all parts" to service Kodak equipment, weigh in favor of an "all parts" market. Kodak does not point to record evidence which supports a contrary conclusion.

2.

[10] Next we turn to the second monopoly power element: market share. A plaintiff relying on circumstantial evidence to establish a § 2 monopolization claim must show that the defendant owned a "dominant share" of the market. *Rebel Oil*, 51 F.3d at 1434. Calculation of the market share allows for a proper understanding of the defendant's influence and relative power in the relevant market. A dominant share of the market often carries with it the power to control output across the market, and thereby control prices. *Id.* at 1437. Courts generally require a 65% market share to establish a prima facie case of market power. See *American Tobacco Co. v. United States*, 328 U.S. 781, 797, 66 S.Ct. 1125, 1133, 90 L.Ed. 1575 (1946).

In *Kodak*, the Supreme Court stated that Kodak's possession of monopoly power was "easily resolved." 504 U.S. at 481, 112 S.Ct. at 2089-90. The Court relied on its earlier discussion of the § 1 claim, where it held that the ISOs had "presented a triable claim that Kodak ha[d] the 'power to control prices or exclude competition' in service and parts." *Id.* Noting that "monopoly power" under § 2 requires "something greater than market power under § 1," the Court held that the "evidence that Kodak controls nearly 100% of the parts market and 80% to 95% of the service market, with no readily available substitutes ... sufficient to survive summary judgment...." *Id.*

3.

[14] The third and final monopoly power factor concerns barriers to market entry and barriers to expansion. [FN5] *Rebel Oil*, 51 F.3d at *1208 1439. A § 2 plaintiff, establishing monopoly power by circumstantial evidence, must establish more than just market share. Even a 100% monopolist may not exploit its monopoly power in a market without entry barriers. See *Los Angeles Land Co. v. Brunswick Corp.*, 6 F.3d 1422, 1427 (9th Cir.1993) (citation omitted). A § 2 plaintiff must show that new competitors face high market barriers to entry and that current

competitors lack the ability to expand their output to challenge a monopolist's high prices. *Rebel Oil*, 51 F.3d at 1439. Barriers to entry "must be capable of constraining the normal operation of the market to the extent that the problem is unlikely to be self-correcting." *Id.*, 51 F.3d at 1439 (citing *United States v. Syufy Enterprises*, 903 F.2d 659, 663 (9th Cir.1990)). Common entry barriers include: patents or other legal licenses, control of essential or superior resources, entrenched buyer preferences, high capital entry costs and economies of scale. *Id.*

FN5. Contrary to the ISOs' argument, the Kodak Court's criticism of simultaneous entry barriers to parts and service did not lessen the requirements for showing market power; rather, the Court's statement foreclosed Kodak's argument that prevention of ISO free-riding on its investment in parts justified its actions as a matter of law. 504 U.S. at 485, 112 S.Ct. at 2092.

Kodak argues that the ISOs failed to prove meaningful entry barriers. The record proves otherwise. Kodak has 220 patents and controls its designs and tools, brand name power and manufacturing capability. Kodak controls original- equipment manufacturers through various contract arrangements. Kodak has consistently maintained a high share of the service market. These factors together with the economies of scale, support a finding of high barriers to entry by new manufacturers and to increased output by established suppliers. See *Reazin v. Blue Cross and Blue Shield of Kansas, Inc.*, 899 F.2d 951, 968 (10th Cir.1990) ("Entry barriers may include high capital costs or regulatory or legal requirements such as patents or licenses.").

Kodak fails to rebut this evidence. Kodak focuses on the testimony of an ISO witness who stated: "[y]ou could get in my business tomorrow if you had the expertise." That witness, however, also identified capital and consumer demand as other significant barriers to market entry. Although some new

entry was possible, the record reflects substantial evidence of entry barriers sufficient to prevent Kodak's monopoly share from self-correcting. See *Rebel Oil*, 51 F.3d at 1440-41 ("Barriers may still be 'significant' if the market is unable to correct itself despite the entry of small rivals."). Kodak claims that the same witness testified that he could make any part if ISOs servicing a total of 2,000 machines would buy the part. The witness actually only agreed that he would "supply more Kodak parts," if there were 2,000 machines needing them. We reject Kodak's sufficiency of the evidence claim.

B. Use of Monopoly Power

The second element of a § 2 monopoly claim, the "conduct" element, is the use of monopoly power "to foreclose competition, to gain a competitive advantage, or to destroy a competitor." *Kodak*, 504 U.S. at 482-83, 112 S.Ct. at 2090 (quoting *United States v. Griffith*, 334 U.S. 100, 107, 68 S.Ct. 941, 945, 92 L.Ed. 1236 (1948)). The ISOs proceeded under a "monopoly leveraging" theory, alleging that Kodak used its monopoly over Kodak parts to gain or attempt to gain a monopoly over the service of Kodak equipment. The Supreme Court endorsed this theory in *Kodak* noting: "If Kodak adopted its parts and service policies as part of a scheme of willful acquisition or maintenance of monopoly power, it will have violated § 2." *Id.* (citations omitted). "Willful acquisition" or "maintenance of monopoly power" involves "exclusionary conduct," not power gained "from growth or development as a consequence of a superior product, business acumen, or historic accident." *Grinnell*, 384 U.S. at 570-71, 86 S.Ct. at 1704.

[15] Kodak attacks the district court's monopoly conduct jury instructions as well as the ISOs' evidence establishing Kodak's exclusionary conduct. A challenge to a jury instruction on the grounds that it misstates the relevant elements is a question of law reviewed *de novo*. *Caballero v. Concord*, 956 F.2d 204, 206 (9th Cir.1992). As noted, the jury's verdict will stand if supported by substantial evidence.

1.

[16] Kodak's chief complaint with the monopoly power jury instructions lies with Jury *1209 Instruction No. 29. That Instruction, entitled "Monopolization--Monopoly Conduct," states in relevant part:

[a] company with monopoly power in a relevant market has no general duty to cooperate with its business rivals and may refuse to deal with them or with their customers if valid business reasons exist for such refusal. It is unlawful, however, for a monopolist to engage in conduct, including refusals to deal, that unnecessarily excludes or handicaps competitors in order to maintain a monopoly.

(emphasis added). Kodak argues that this instruction lacks objective standards and improperly includes within the prohibited activities a lawful monopolist's "aggressive" competition.

Specifically, Kodak challenges Instruction No. 29's "unnecessarily excludes or handicaps competitors" language. Kodak says that this language is based on a form of "monopoly leveraging" that we previously rejected in *Alaska Airlines, Inc. v. United Airlines, Inc.*, 948 F.2d 536, 543 (9th Cir.1991). In *Alaska Airlines* we did reject the Second Circuit's holding in *Berkey Photo, Inc. v. Eastman Kodak Co.*, 603 F.2d 263 (2d Cir.1979). *Berkey Photo* recognized liability under § 2 of the Sherman Act on a theory of monopoly leveraging involving a firm which used "its monopoly power in one market to gain a competitive advantage in another, albeit without an attempt to monopolize the second market." 603 F.2d at 275. In *Alaska Airlines*, we held that "monopoly leveraging" could not exist as a basis for § 2 liability in the absence of the defendant using its monopoly in one market to monopolize or attempt to monopolize the downstream market. 948 F.2d at 547. We characterized *Berkey Photo*'s downstream monopoly requirement--"to gain a competitive advantage"--as too "loose." *Alaska Airlines*, 948 F.2d at 546.

3.

III

[20][21] Our conclusion that the ISOs have shown that Kodak has both attained monopoly power and exercised exclusionary conduct does not end our inquiry. Kodak's conduct may not be actionable if supported by a legitimate business justification. When a legitimate business justification supports a monopolist's exclusionary conduct, that conduct does not violate § 2 of the Sherman Act. See *Kodak*, 504 U.S. at 483, 112 S.Ct. at 2090-91; *Oahu Gas*, 838 F.2d at 368. A plaintiff may rebut an asserted business justification by demonstrating either that the justification does not legitimately promote competition or that the justification is pretextual. See *Kodak*, 504 U.S. at 483-84, 112 S.Ct. at 2090-91 (citing *Kodak*, 903 F.2d at 618). Kodak asserts that the protection of its patented and copyrighted parts is a valid business justification for its anticompetitive conduct and argues that the district court's erroneous jury instructions made it impossible for the jury to properly consider this justification. Kodak attacks the district court's failure both to provide a "less restrictive *1213 alternatives" instruction, and to instruct as to Kodak's intellectual property rights. Jury instructions "must be formulated so that they fairly and adequately cover the issues presented, correctly state the law, and are not misleading." *Knapp v. Ernst & Whinney*, 90 F.3d 1431, 1437 (9th Cir.1996), cert. denied, --- U.S. ---, 117 S.Ct. 952, 136 L.Ed.2d 839 (1997). To the extent that Kodak alleges error in the district court's formulation of the instructions, we consider the instructions as a whole and apply an abuse of discretion standard to determine if they are "misleading or inadequate." *Id.* (citation omitted). To the extent that Kodak argues that the district court misstated the elements the ISOs were required to prove at trial, we review the instructions *de novo*. *Id.*

A. Least Restrictive Alternatives

[22] Kodak argues that the district court erred by failing to instruct the jury that it was not to

consider whether Kodak could have accomplished its business objectives through less restrictive alternatives. Kodak also questions the sufficiency of the ISOs' pretext evidence. The ISOs counter that Kodak waived its arguments regarding business justifications by failing to move for judgment as a matter of law. We disagree. To the extent that Kodak's arguments focus on the jury instructions and not the general sufficiency of the evidence, Rule 50(b) does not apply.

[23] Kodak argues that monopolization, unlike tying, does not require consideration of whether the defendant could have achieved its aims through less restrictive alternatives. Kodak, however, cites no authority mandating an instruction requiring that the jury not consider "less restrictive alternatives." Kodak's argument rests on the combination of the district court's refusal to use Kodak's requested language and Kodak's disagreement with the "unnecessarily excludes or handicaps competitors" language of Jury Instruction Nos. 29 and 34. As a result of this combination, Kodak argues, the ISOs were able to argue a "necessity" standard and ask the jury to weight what Kodak did "against the alternatives."

As discussed above, the "unnecessarily excluded or handicaps" language was permissible under *Aspen Skiing*. Moreover, the district court's instruction here, Instruction No. 28, was very similar to both the language proposed by Kodak and the language endorsed by the Supreme Court in *Aspen Skiing*, 472 U.S. at 597, 105 S.Ct. at 2854-55. Jury Instruction No. 28 defines "exclusionary conduct" as impairing "the efforts of others to compete for customers in an unnecessarily restrictive way." The district court also instructed that: (1) Kodak could refuse to deal if valid business reasons existed and (2) the jury could not "second guess whether Kodak's business judgment was wise or correct in retrospect." Under these instructions the jury could not consider "less restrictive alternatives" without "second guessing" Kodak and thus violating the jury instructions. We presume that the jury followed the court's

instructions. *United States v. Alston*, 974 F.2d 1206, 1210 (9th Cir.1992).

Kodak next argues that the ISOs' primary arguments refuting Kodak's business justifications were "less restrictive alternative" arguments. Kodak focuses on the ISOs' attack on Kodak's quality control justification as one such "less restrictive alternative" argument. Kodak argues that because "the legitimacy of quality control is beyond reproach," the ISOs were forced to establish this justification, and others, were pretextual. The ISOs did establish pretext: they attacked Kodak's quality control justification on the grounds that it was pretextual, not because it was the least restrictive alternative. Counsel for the ISOs argued that Kodak's quality control justification was "a joke" because ISOs do not interfere with the quality of Kodak's service. We hold that the district court did not err in its instructions.

[24] Kodak has waived its insufficiency of evidence claim on this issue by failing to move for judgment as a matter of law at trial. We review only for plain error. *Cabralles*, 864 F.2d at 1459. The ISOs' evidence suffices to support the jury's ejection of Kodak's business justifications, as the record reflects evidence of pretext. The ISOs presented evidence that: (1) Kodak adopted its parts policy only after an ISO won a contract *1214 with the State of California; (2) Kodak allowed its own customers to service their machines; (3) Kodak customers could distinguish breakdowns due to poor service from breakdowns due to parts; and (4) many customers preferred ISO service.

B. Intellectual Property Rights

Kodak also attacks the district court's business justifications instructions for their failure to properly detail Kodak's intellectual property rights. Kodak argues that the court failed to instruct the jury that Kodak's numerous patents and copyrights provide a legitimate business justification for Kodak's alleged exclusionary conduct. Kodak holds 220 valid United States patents covering 65 parts for its high volume photocopiers and

micrographics equipment, and all Kodak diagnostic software and service software are copyrighted. The jury instructions do not afford Kodak any "rights" or "privileges" based on its patents and copyrights: all parts are treated the same. In Jury Instruction No. 37, the court told the jury:

[i]f you find that Kodak engaged in monopolization or attempted monopolization by misuse of its alleged parts monopoly ... then the fact that some of the replacement parts are patented or copyrighted does not provide Kodak with a defense against any of those antitrust claims.

In Jury Instruction No. 28, the court stated, over Kodak's objection, that:

[s]uch [exclusionary] conduct does not refer to ordinary means of competition, like offering better products or services, exercising superior skill or business judgment, utilizing more efficient technology, or exercising natural competitive advantages.

Kodak proposed to include "exercising lawful patents and copyrights" amongst the list of non-exclusionary conduct in Instruction No. 28, but the district court rejected that language.

Kodak's challenge raises unresolved questions concerning the relationship between federal antitrust, copyright and patent laws. In particular we must determine the significance of a monopolist's unilateral refusal to sell or license a patented or copyrighted product in the context of a § 2 monopolization claim based upon monopoly leveraging. This is a question of first impression.

1.

We first identify the general principles of antitrust, copyright and patent law as we must ultimately harmonize these statutory schemes in responding to Kodak's challenge.

Antitrust law seeks to promote and protect a competitive marketplace for the benefit of the public. See *Standard Oil Co. v. United States*, 221 U.S. 1, 58, 31 S.Ct. 502, 515, 55 L.Ed. 619 (1911); *SCM Corp. v. Xerox Corp.*, 645

F.2d 1195, 1203 (2d Cir.1981). The Sherman Act, the relevant antitrust law here, prohibits efforts both to restrain trade by combination or conspiracy and the acquisition or maintenance of a monopoly by exclusionary conduct. 15 U.S.C. §§ 1, 2.

Patent law seeks to protect inventions, while inducing their introduction into the market for public benefit. *SCM Corp.*, 645 F.2d at 1203. Patent laws "reward the inventor with the power to exclude others from making, using or selling [a patented] invention throughout the United States." *Id.* [FN7] Meanwhile, the public benefits both from the ***1215** faster introduction of inventions, and the resulting increase in market competition. Legally, a patent amounts to a permissible monopoly over the protected work. See *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135, 89 S.Ct. 1562, 1583, 23 L.Ed.2d 129 (1969). Patent laws "are in pari materia with the antitrust laws and modify them pro tanto (as far as the patent laws go)." *Simpson v. Union Oil Co.*, 377 U.S. 13, 24, 84 S.Ct. 1051, 1058, 12 L.Ed.2d 98 (1964).

FN7. In 1988, Congress amended the patent laws to provide that "[n]o patent owner otherwise entitled to relief for infringement ... of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of ... (4) [the patent owner's] refus[al] to license or use any rights to the patent." 35 U.S.C. § 271(d) (1988).

The First Circuit has observed that this amendment "may even herald the prohibition of all antitrust claims ... premised on a refusal to license a patent." *Data General*, 36 F.3d at 1187 (citing Richard Calkins, "Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims," 38 *Drake L.Rev.* 175, 192-97 (1988-89)). The amended statutory language does not compel this result, and Calkins and other commentators agree that § 271(d)(4)

merely codified existing law. See Calkins, 38 Drake L.Rev. at 197; 5 Donald S. Chisum, Patents, § 19.04[1] at 19-295 (1992) ("The 'refusal to license' provision received little attention in the floor statements, primarily because the provision was intended to codify existing law."). The amendment does, however, indicate congressional intent to protect the core patent right of exclusion.

Federal copyright law "secure[s] a fair return for an author's creative labor" in the short run, while ultimately seeking "to stimulate artistic creativity for the general public good." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156, 95 S.Ct. 2040, 2044, 45 L.Ed.2d 84 (1975) (internal quotations omitted). The Copyright Act grants to the copyright owner the exclusive right to distribute the protected work. 17 U.S.C. § 106. This right encompasses the right to "refrain from vending or licensing," as the owner may "content [itself] with simply exercising the right to exclude others from using [its] property." *Data General*, 36 F.3d at 1186 (quoting *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127, 52 S.Ct. 546, 547, 76 L.Ed. 1010 (1932)); see *Stewart v. Abend*, 495 U.S. 207, 228-29, 110 S.Ct. 1750, 1764, 109 L.Ed.2d 184 (1990) ("nothing in the copyright statutes would prevent an author from hoarding all of his works during the term of the copyright.")

Clearly the antitrust, copyright and patent laws both overlap and, in certain situations, seem to conflict. This is not a new revelation. We have previously noted the "obvious tension" between the patent and antitrust laws: "[o]ne body of law creates and protects monopoly power while the other seeks to proscribe it." *United States v. Westinghouse Electric Corp.*, 648 F.2d 642, 646 (9th Cir.1981) (citations omitted). Similarly, tension exists between the antitrust and copyright laws. See *Data General*, 36 F.3d at 1187.

Two principles have emerged regarding the interplay between these laws: (1) neither

patent nor copyright holders are immune from antitrust liability, and (2) patent and copyright holders may refuse to sell or license protected work. First, as to antitrust liability, case law supports the proposition that a holder of a patent or copyright violates the antitrust laws by "concerted and contractual behavior that threatens competition." *Id.* at 1185 n. 63 (citation omitted). In *Kodak*, the Supreme Court noted:

[we have] held many times that power gained through some natural advantage such as a patent, copyright, or business acumen can give rise to liability if 'a seller exploits his dominant position in one market to expand his empire into the next.'

504 U.S. at 479 n. 29, 112 S.Ct. at 2089 n. 29 (quoting *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594, 611, 73 S.Ct. 872, 882, 97 L.Ed. 1277 (1953) and citing *Northern Pacific R. Co. v. United States*, 356 U.S. 1, 78 S.Ct. 514, 2 L.Ed.2d 545 (1958); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 68 S.Ct. 915, 92 L.Ed. 1260 (1948); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 463, 58 S.Ct. 288, 290-91, 82 L.Ed. 371 (1938)).

Case law also supports the right of a patent or copyright holder to refuse to sell or license protected work. See *Westinghouse*, 648 F.2d at 647. In *United States v. Westinghouse Electric Corp.*, we held that "[t]he right to license [a] patent, exclusively or otherwise, or to refuse to license at all, is the 'untrammeled right' of the patentee." *Id.* (quoting *Cataphote Corporation v. DeSoto Chemical Coatings, Inc.*, 450 F.2d 769, 774 (9th Cir.1971)); see *Zenith Radio Corp.*, 395 U.S. at 135, 89 S.Ct. at 1583 (the patent holder has the "right to invoke the State's power to prevent others from utilizing [the] discovery without [the patent holder's] consent") (citations omitted); *Tricom Inc. v. Electronic Data Systems Corp.*, 902 F.Supp. 741, 743 (E.D.Mich.1995) ("Under patent and copyright law, [the owner] may not be compelled to license ... to anyone.") (citations omitted).

Next we lay out the problem presented here. The Supreme Court touched on this question in *Kodak*, i.e., the effect to be given a monopolist's unilateral refusal to sell or license a patented or copyrighted product in the context of a § 2 monopoly leveraging claim. In footnote 29, previously discussed, *1216 the Supreme Court in *Kodak* refutes the argument that the possession by a manufacturer of "inherent power" in the market for its parts "should immunize [that manufacturer] from the antitrust laws in another market." 504 U.S. at 479 n. 29, 112 S.Ct. at 2089 n. 29. The Court stated that a monopolist who acquires a dominant position in one market through patents and copyrights may violate § 2 if the monopolist exploits that dominant position to enhance a monopoly in another market. Although footnote 29 appears in the Court's discussion of the § 1 tying claim, the § 2 discussion frequently refers back to the § 1 discussion, and the Court's statement that "exploit[ing][a] dominant position in one market to expand [the] empire into the next" is broad enough to cover monopoly leveraging under § 2. *Id.* [FN8] By responding in this fashion, the Court in *Kodak* supposed that intellectual property rights do not confer an absolute immunity from antitrust claims.

FN8. The cases cited by the Supreme Court also support this conclusion. In *Times-Picayune*, the Court addressed both a § 1 tying claim and a § 2 monopolization claim. 345 U.S. at 611, 73 S.Ct. at 881-82. Regarding the § 1 claim, the Court found insufficient power in the relevant market to support "dominance." *Id.* Later in addressing the § 2 claim, the Supreme Court held that "[t]his case does not demonstrate an attempt by a monopolist established in one area to nose into a second market...." *Id.* at 626, 73 S.Ct. at 890.

Also relevant to the relationship between § 1 and § 2, the Court in *Leitch Manufacturing* held that it made no difference that the defendant had not expanded its monopoly "by

contract." 302 U.S. at 463, 58 S.Ct. at 291. The Court held:

[T]he owner of the patent monopoly, ignoring the limitation 'inherent in the patent grant,' sought by its method of doing business to extend the monopoly to unpatented material

.... [This is unlawful] whatever the nature of the device by which the owner of the patent seeks to effect such unauthorized extension of the monopoly.

Id. (citation omitted); see also *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 665, 64 S.Ct. 268, 271, 88 L.Ed. 376 (1943) ("The method by which the monopoly is sought to be extended is immaterial.")

The particular patent misuse issues addressed in *Leitch* and *Mercoid* are now controlled by 35 U.S.C. § 271, *Dawson Chem. Co. v. Rohm & Haas*, 448 U.S. 176, 100 S.Ct. 2601, 65 L.Ed.2d 696 (1980), but this does not alter the application of their reasoning here.

The *Kodak* Court, however, did not specifically address the question of antitrust liability based upon a unilateral refusal to deal in a patented or copyrighted product. *Kodak* and its amicus correctly indicate that the right of exclusive dealing is reserved from antitrust liability. We find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright. [FN9] Courts do not generally view a monopolist's unilateral refusal to license a patent as "exclusionary conduct." See *Data General*, 36 F.3d at 1186 (citing *Miller Insituform, Inc. v. Insituform of North America*, 830 F.2d 606, 609 (6th Cir.1987)) ("A patent holder who lawfully acquires a patent cannot be held liable under Section 2 of the Sherman Act for maintaining the monopoly power he lawfully acquired by refusing to license the patent to others."); *Westinghouse*, 648 F.2d at 647 (finding no antitrust violation because "Westinghouse has done no more than to license some of its patents and refuse to license others"); *SCM Corp.*, 645 F.2d at

1206 ("where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws.").

FN9. The ISOs correctly observe that this case involves a selective refusal to sell products protected by patents and copyrights, not an absolute refusal to license. This distinction makes no difference. See *Westinghouse*, 648 F.2d at 647 ("the right to license ... exclusively or otherwise ... is the 'untrammelled right' of the patentee."). The ISOs offer no rationale for a distinction between discriminatory licensing and discriminatory sales.

[25] This basic right of exclusion does have limits. For example, a patent offers no protection if it was unlawfully acquired. *Data General*, 36 F.3d at 1186 (citing *SCM Corp.*, 645 F.2d at 1208-09). Nor does the right of exclusion protect an attempt to extend a lawful monopoly beyond the grant of a patent. See *Mercoid*, 320 U.S. at 665, 64 S.Ct. at 271. Section 2 of the Sherman Act condemns exclusionary conduct that extends natural monopolies into separate markets. Much depends, therefore, on the definition of the patent grant and the relevant market.

The relevant market for determining the patent or copyright grant is determined under ***1217** patent or copyright law. See, e.g., *id.* at 666, 64 S.Ct. at 271 (the patent's grant "is limited to the invention which it defines."). The relevant markets for antitrust purposes are determined by examining economic conditions. See *Kodak*, 504 U.S. at 462, 112 S.Ct. at 2079-80 (citing *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2, 21-22, 104 S.Ct. 1551, 1563-64, 80 L.Ed.2d 2 (1984)). We recently noted the distinction between copyright market definition and antitrust market definition in *Triad Systems Corp. v. Southeastern Express Co.*, 64 F.3d 1330 (9th Cir.1995). There, the plaintiff, Southeastern, argued that the copyright of the defendant, Triad, did not "extend to the service market" for Triad computers. We disagreed stating:

Triad invented, developed, and marketed its software to enable its customers and its own technicians to service Triad computers. Southeastern is getting a free ride when it uses that software to perform precisely the same service. Triad is entitled to licensing fees from Southeastern and other ISOs....

Id. at 1337. Rather than merely requiring Southeastern to pay for future use, the district court enjoined Southeastern from servicing the computers that had licensed software. See *id.* at 1334. We never reached Southeastern's antitrust counterclaims, as they had not yet been tried. *Id.* at 1338 (district court properly bifurcated the copyright and antitrust claims). Neither did we refer to antitrust principles in defining the reach of Triad's copyright.

Parts and service here have been proven separate markets in the antitrust context, but this does not resolve the question whether the service market falls "reasonably within the patent [or copyright] grant" for the purpose of determining the extent of the exclusive rights conveyed. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708-09 (Fed.Cir.1992). These are separate questions, which may result in contrary answers. At the border of intellectual property monopolies and antitrust markets lies a field of dissonance yet to be harmonized by statute or the Supreme Court.

When an owner of intellectual property takes concerted action in violation of § 1, this dissonance does not threaten his core right of exclusion. [FN10] See *Brownell v. Ketcham Wire & Manufacturing Co.*, 211 F.2d 121, 129 (9th Cir.1954) (listing acts giving rise to antitrust liability). Contrary to the ISOs' arguments, there is an important difference between § 1 tying and § 2 monopoly leveraging: the limiting principles of § 1 restrain those claims from making the impact on intellectual property rights threatened by § 2 monopoly leveraging claims. Where, as here, the claim involves a failure to act that is at the heart of the property right, liability depends largely on market definition and lacks the limiting principles of § 1. Under § 2, "[b]ehavior that might otherwise not be of concern to the antitrust laws--or that might

even be viewed as procompetitive--can take on exclusionary connotations when practiced by a monopolist." *Kodak*, 504 U.S. at 488, 112 S.Ct. at 2093 (Scalia, J. dissenting) (citing *3 Areeda & Turner*, ¶ 813, at 300-302); see also *Greyhound Computer v. International Business Machines*, 559 F.2d 488, 498 (9th Cir.1977) (otherwise lawful conduct may be exclusionary when practiced by a monopolist). Harmonizing antitrust monopoly theory with the monopolies granted by intellectual property law requires that some weight be given to the intellectual property rights of the monopolist.

FN10. The ISOs withdrew their tying claim. The ISOs' Amici, National Electronics Service Dealers Association and Professional Service Association, argue that the record reflects concerted action by Kodak, but the jury instructions do not define such action and we should not presume that it was found.

The effect of claims based upon unilateral conduct on the value of intellectual property rights is a cause for serious concern. Unilateral conduct is the most common conduct in the economy. After *Kodak*, unilateral conduct by a manufacturer in its own aftermarkets may give rise to liability and, in one-brand markets, monopoly power created by patents and copyrights will frequently be found. Under current law the defense of monopolization claims will rest largely on the legitimacy of the asserted business justifications, *1218 as evidenced by the jury instructions approved in *Aspen Skiing*.

Without bounds, claims based on unilateral conduct will proliferate. The history of this case demonstrates that such claims rest on highly disputed factual questions regarding market definition. Particularly where treble damages are possible, such claims will detract from the advantages lawfully granted to the holders of patents or copyrights by subjecting them to the cost and risk of lawsuits based upon the effect, on an arguably separate market, of their refusal to sell or license. The cost of such suits will

reduce a patent holder's "incentive ... to risk the often enormous costs in terms of time, research, and development." *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480, 94 S.Ct. 1879, 1885, 40 L.Ed.2d 315 (1974). Such an effect on patent and copyright holders is contrary to the fundamental and complementary purposes of both the intellectual property and antitrust laws, which aim to "encourag[e] innovation, industry and competition." *Atari Games Corp. v. Nintendo of America, Inc.*, 897 F.2d 1572, 1576 (Fed.Cir.1990) (citing *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 876-77, (Fed.Cir.1985)). [FN11]

FN11. That antitrust claims may cut into the core rights conferred by patents and copyrights is illustrated by the injunction imposed by the district court here. The injunction requires that Kodak supply all ISOs with its patented and copyrighted materials at "reasonable prices." Even the ISOs do not dispute that Kodak is entitled to reap monopoly prices from the sale or licensing of these materials.

3.

[26] We now resolve the question detailed above. Under the fact-based approaches of *Aspen Skiing* and *Kodak*, some measure must guarantee that the jury account for the procompetitive effects and statutory rights extended by the intellectual property laws. To assure such consideration, we adopt a modified version of the rebuttable presumption created by the First Circuit in *Data General*, and hold that "while exclusionary conduct can include a monopolist's unilateral refusal to license a [patent or] copyright," or to sell its patented or copyrighted work, a monopolist's "desire to exclude others from its [protected] work is a presumptively valid business justification for any immediate harm to consumers." *Data General*, 36 F.3d at 1187.

This presumption does not "rest on formalistic distinctions" which "are generally disfavored in antitrust laws;" rather it is based on "actual market realities." *Kodak*, 504 U.S.

at 466-67, 112 S.Ct. at 2082. This presumption harmonizes the goals of the relevant statutes and takes into account the long term effects of regulation on these purposes. The presumption should act to focus the factfinder on the primary interest of both intellectual property and antitrust laws: public interest. *Mercoide*, 320 U.S. at 665, 64 S.Ct. at 271 (citation omitted) ("It is the public interest which is dominant in the patent system."); *Standard Oil*, 221 U.S. at 58, 31 S.Ct. at 515 (antitrust laws serve the public interest by encouraging effective competition).

[27][28] Given this presumption, the district court's failure to give any weight to Kodak's intellectual property rights in the jury instructions constitutes an abuse of discretion. This error was, however, harmless. The ISOs maintain that Kodak argued protection of intellectual property as a business justification to the jury, which rejected this justification as pretextual. An error in instructing the jury in a civil case does not require reversal if it is more probable than not harmless. *Jenkins v. Union Pacific R. Co.*, 22 F.3d 206, 210 (9th Cir.1994).

Kodak contends that the district court's jury instructions prevented it from arguing intellectual property to the jury. Although Kodak listed "Protect [] Kodak's R & D investment and intellectual property rights" among the seven business justifications it presented, the only argument Kodak made in closing was this:

Protecting Investments. By itself, again, another legitimate business reason. You've already seen the size of the investments. And indeed, Plaintiffs themselves recognized that they wouldn't be in business unless Kodak made those investments.

***1219** Phrased in these broad terms, Kodak's argument repeats the "free-riding" justification rejected, as a matter of law, by the Supreme Court. *Kodak*, 504 U.S. at 485, 112 S.Ct. at 2092. The Supreme Court held that preventing the ISOs from "exploit[ing] the investment Kodak has made in product development, manufacturing and equipment sales" does not suffice as a business

justification. *Id.* ("This understanding of free-riding has no support in our case law.").

Given the interplay of the antitrust and intellectual property laws discussed above, Kodak's contention that its refusal to sell its parts to ISOs was based on its reluctance to sell its patented or copyrighted parts was a presumptively legitimate business justification. See *Data General*, 36 F.3d. at 1187. Kodak may assert that its desire to profit from its intellectual property rights justifies its conduct, and the jury should presume that this justification is legitimately procompetitive.

Nonetheless, this presumption is rebuttable. See *id.* at 1188. In *Data General*, the First Circuit reasoned that the plaintiff did not rebut the presumption by drawing an analogy to *Aspen Skiing*, where a monopolist made an important change in its practices, which had both originated in a competitive market and persisted for several years. See *Data General*, 36 F.3d at 1188. Because competitive conditions had never prevailed in the service market, the First Circuit concluded that it would be inappropriate to infer "from [defendant's] change of heart that its former policies 'satisfy consumer demand in free competitive markets.'" *Id.* at 1188 (quoting *Aspen Skiing*, 472 U.S. at 603, 105 S.Ct. at 2858). As in *Data General*, we are not faced here with a simple comparison between the monopolist's market and the established competitive market found in *Aspen Skiing*.

The *Data General* court noted that the presumption of legitimacy can be rebutted by evidence that the monopolist acquired the protection of the intellectual property laws in an unlawful manner. See 36 F.3d at 1188 (citation omitted). The presumption may also be rebutted by evidence of pretext. Neither the aims of intellectual property law, nor the antitrust laws justify allowing a monopolist to rely upon a pretextual business justification to mask anticompetitive conduct. See *Kodak*, 504 U.S. at 484, 112 S.Ct. at 2091 (Because "Kodak's willingness to allow self-service casts doubt on its quality claim a reasonable trier of fact could conclude that

[this justification] is pretextual.") (citation omitted).

Kodak defends its intellectual property rights "justification" against claims of pretext. Kodak argues that its subjective motivation is irrelevant. Kodak also contends, citing *Olympia Equipment Leasing Co. v. Western Union Telegraph Co.*, 797 F.2d 370, 379 (7th Cir.), reh'g denied, (7th Cir.1986), that a desire to best the competition does not prove pretext, nor does hostility to competitors. Kodak's argument and its accompanying authority stands for nothing more than the proposition that a desire to compete does not demonstrate pretext.

Evidence regarding the state of mind of Kodak employees may show pretext, when such evidence suggests that the proffered business justification played no part in the decision to act. Kodak's parts manager testified that patents "did not cross [his] mind" at the time Kodak began the parts policy. Further, no distinction was made by Kodak between "proprietary" parts covered by tooling or engineering clauses and patented or copyrighted products. In denying Kodak's motion for a new trial, the district court commented that Kodak was not actually motivated by protecting its intellectual property rights. Kodak argues that the district court should have allowed the jury to reach this conclusion.

Kodak photocopy and micrographics equipment requires thousands of parts, of which only 65 were patented. Unlike the other cases involving refusals to license patents, this case concerns a blanket refusal that included protected and unprotected products. Cf. *Westinghouse*, 648 F.2d at 647 (refusal to license patents); *SCM Corp.*, 645 F.2d at 1197 (same); *Miller Insituform*, 830 F.2d at 607 (claim based on termination of license agreement). From this evidence, it is more probable than not that the jury would have found Kodak's presumptively valid business *1220 justification rebutted on the grounds of pretext. [FN12]

FN12. In Jury Instruction No. 34, the jury was instructed that, if they "find that any Kodak business reason" is a legitimate business reason, in that it "furthers competition on the merits, reduces prices, enhances the quality or attractiveness of a product, increases efficiency by reducing costs or otherwise benefits consumers," they "should then consider whether each such reason is pretextual-in other words, not a genuine reason for Kodak's conduct."

Kodak argues that the existence of some patented and copyrighted products undermines ISOs "all parts" theory. To the contrary, as discussed above, the "all parts" market reflects the "commercial realities" of the marketplace and the lack of identifiable separate markets for individual parts. The fact that Kodak did not differentiate between patented and nonpatented parts lends further support to the existence of these commercial realities. The jury accepted the "all parts" theory and found a scheme to monopolize the service market through Kodak's conduct. We hold that the district court's failure to instruct on Kodak's intellectual property rights was harmless.

We direct the following modifications to the injunction:

1. DEFINITION OF TERMS

As used in this permanent injunction, the following terms shall have the following meanings:

(a)"Kodak" shall mean the defendant Eastman Kodak Company, its officers, agents, servants, employees, attorneys and all persons in active concert or participation with any of them who receive notice of this injunction [, and Kodak's successors and assigns].

(b)"Kodak equipment" shall refer to all past, present and future micrographic equipment (whether film or digitized media based) made by or for defendant and to all Kodak high volume photocopiers made by or for defendant Kodak including, without

limitation, all such equipment serviced by Kodak personnel in the field.

(c)"ISOs" shall refer to any person, firm, corporation or other entity engaged, in whole or in part, in providing equipment on site or field repair or maintenance service to end user customers possessing Kodak micrographic equipment or Kodak high volume photocopiers in the United States.

(d)"Parts" includes the following:(i) parts for Kodak equipment;

(ii) parts identified or described in Kodak's Parts Lists;

(iii) all parts or supply items that are field replaceable by Kodak technicians (including, without limitation, subassemblies--to the extent that subassemblies are available to Kodak technicians--circuit board level parts, IC chips, image loops, pm packs, filters and cleaning kits);

(iv) service manuals (including those incorporated in hard copy, microfiche or other medium), parts, lists, price lists; and
(v) all tools or devices essential to servicing Kodak equipment including, but not limited to, service modules, meters and electrometers, but excluding tools and devices which are generally available from normal commercial sources and which are not distributed by Kodak to its technicians.

(e)"Kodak parts" include any part assembled, prepared or manufactured by Kodak. Kodak parts shall not include parts manufactured by original-equipment manufacturers for Kodak.

2. SALE OR PARTS FOR HIGH VOLUME COPIERS AND MICROGRAPHIC EQUIPMENT BY KODAK

(a) Kodak shall sell Kodak parts to ISOs or any buying cooperatives acting on ***1227** behalf of ISOs for all models of Kodak equipment for which Kodak or its authorized agents offer service, provided that Kodak reserves the right to require cash on delivery for new sales to any person without an established and reasonably acceptable credit history or who is in default of an obligation to pay Kodak for previous orders or to take other reasonable actions related to credit if applied to ISOs and other third parties in a nondiscriminatory manner.

(b) All orders for Kodak parts by ISOs shall be made through the Kodak Customer Parts and Product Support Center (or similar facility) currently located in Rochester, New York.

(c) To the extent Kodak offers to its own technicians, for their use in repairing and maintaining Kodak equipment, individual Kodak parts as well as subassemblies containing numerous Kodak parts, or to the extent it is reasonable to do so, Kodak will offer to sell to any interested party on [reasonable and] nondiscriminatory terms and prices such individual parts and subassemblies, even though doing so gives the prospective purchaser the option of obtaining a particular part by itself or as a component of a subassembly.

(d) The provisions of this Injunction apply to equipment models which Kodak will introduce during the term of this Injunction as well as to the equipment models which Kodak has already introduced.

(e)"Sell" as used in paragraph 2(a), above, includes, at Kodak's option, "license" with respect to any copyrighted "parts," on [reasonable and] nondiscriminatory terms.

3. ISO ACCESS TO THIRD PARTY SOURCES OF PARTS

(a) Kodak shall not interfere with the ISOs' purchase of parts from third party vendors (including the purchase of parts from Kodak parts suppliers), so long as the ISOs or vendors are not causing the breach of any obligation of themselves or a third party not to disclose proprietary Kodak data, specifications, drawings and/or schematic diagrams; provided that the sale of a part by a third party vendor or Kodak part supplier shall not be deemed to be a disclosure of Kodak proprietary data.

4. NO DISCRIMINATION AGAINST ISOs

(a) Kodak shall not discriminate against any ISO regarding parts availability or prices vis-a-vis any other ISOs, or any other commercial service provider or end user (i.e., Kodak will sell parts to any ISO at the same prices and terms, conditions and delivery schedules offered to any other ISO commercial service provider or end user)

[which prices, terms and conditions shall, in any event, be reasonable].

(b) Kodak shall not discriminate against any customer or other party on the basis that such customer or other party has used the parts or services of someone other than Kodak in connection with Kodak equipment; provided, however, that nothing in this order shall prohibit Kodak from charging a reasonable fee to inspect Kodak equipment before agreeing to offer an equipment maintenance agreement for service of that Kodak equipment.

5. KODAK'S RETENTION OF PROPRIETARY RIGHTS

Nothing in this Injunction shall prevent Kodak from taking appropriate legal steps to prevent others from duplicating parts for Kodak equipment in which Kodak has a protectable intellectual property interest.

6. NOTICE OF INJUNCTION

Kodak shall, within 45 days of the entry of this injunction, send to its past (within past five years) and current micrographic equipment and high volume photocopiers service customers a notification advising them that Kodak has been ordered to sell Kodak parts to ISOs for the repair and maintenance of Kodak equipment, in a form agreeable to plaintiffs or as approved by the court.

7. TERM OF INJUNCTION

Absent further order of this Court for good cause shown, this Injunction shall ***1228** expire ten (10) years from the date of its entry. If Kodak completely exits the service market for either (1) high volume copiers or (2) micrographic equipment, the terms of this injunction shall no longer apply to Kodak parts for that equipment.

8. RETENTION OF JURISDICTION

This Court retains jurisdiction of this matter for the purpose of enabling any party to apply for such further orders and directions as may be necessary or appropriate for the construction, modification or termination of any of the provisions herein, or for enforcement and compliance with its terms or for the punishment of violations.

VII

We AFFIRM as to all liability issues; REVERSE all damages awarded to ASI and those damages awarded for lost sales of used equipment and REMAND for a new trial on used equipment damages. We AFFIRM on the remaining damage awards and AFFIRM the injunction as modified. Additionally, we award partial attorney's fees for the ISOs to be determined by the district court.

AFFIRMED in part, REVERSED in part, and REMANDED for further proceedings.

GILLMOR, District Court Judge, concurring in part and dissenting in part: (omitted)

114 S.Ct. 1164
127 L.Ed.2d 500, 62 USLW 4169,
1994 Copr.L.Dec. P 27,222,
29 U.S.P.Q.2d 1961, 22 Media L. Rep. 1353
(Cite as: 510 U.S. 569, 114 S.Ct. 1164)

**Luther R. CAMPBELL aka Luke
Skywalker, et al., Petitioners,
v.
ACUFF-ROSE MUSIC, INC.**

No. 92-1292.

Supreme Court of the United States

Argued Nov. 9, 1993.

Decided March 7, 1994.

Justice SOUTER delivered the opinion of the Court.

We are called upon to decide whether 2 Live Crew's commercial parody of Roy Orbison's song, "Oh, Pretty Woman," *572 may be a fair use within the meaning of the Copyright Act of 1976, 17 U.S.C. § 107 (1988 ed. and Supp. IV). Although the District Court granted summary judgment for 2 Live Crew, the Court of Appeals reversed, holding the defense of fair use barred by the song's **1168 commercial character and excessive borrowing. Because we hold that a parody's commercial character is only one element to be weighed in a fair use enquiry, and that insufficient consideration was given to the nature of parody in weighing the degree of copying, we reverse and remand.

I

In 1964, Roy Orbison and William Dees wrote a rock ballad called "Oh, Pretty Woman" and assigned their rights in it to respondent Acuff-Rose Music, Inc. See Appendix A, *infra*, at 1179. Acuff-Rose registered the song for copyright protection.

Petitioners Luther R. Campbell, Christopher Wongwon, Mark Ross, and David Hobbs are collectively known as 2 Live Crew, a popular rap music group. [FN1] In 1989, Campbell

wrote a song entitled "Pretty Woman," which he later described in an affidavit as intended, "through comical lyrics, to satirize the original work...." App. to Pet. for Cert. 80a. On July 5, 1989, 2 Live Crew's manager informed Acuff-Rose that 2 Live Crew had written a parody of "Oh, Pretty Woman," that they would afford all credit for ownership and authorship of the original song to Acuff-Rose, Dees, and Orbison, and that they were willing to pay a fee for the use they wished to make of it. Enclosed with the letter were a copy of the lyrics and a recording of 2 Live Crew's song. See Appendix B, *infra*, at 1179-80. Acuff-Rose's agent refused permission, stating that "I am aware of the success *573 enjoyed by 'The 2 Live Crews', but I must inform you that we cannot permit the use of a parody of 'Oh, Pretty Woman.' " App. to Pet. for Cert. 85a. Nonetheless, in June or July 1989, [FN2] 2 Live Crew released records, cassette tapes, and compact discs of "Pretty Woman" in a collection of songs entitled "As Clean As They Wanna Be." The albums and compact discs identify the authors of "Pretty Woman" as Orbison and Dees and its publisher as Acuff-Rose.

FN1. Rap has been defined as a "style of black American popular music consisting of improvised rhymes performed to a rhythmic accompaniment." The Norton/Grove Concise Encyclopedia of Music 613 (1988). 2 Live Crew plays "[b]ass music," a regional, hip-hop style of rap from the Liberty City area of Miami, Florida. Brief for Petitioners 34.

FN2. The parties argue about the timing. 2 Live Crew contends that the album was released on July 15, and the District Court so held. 754 F.Supp. 1150, 1152 (MD Tenn.1991). The Court of Appeals states that Campbell's affidavit puts the release date in June, and chooses that date. 972 F.2d 1429, 1432 (CA6 1992). We find the timing of the request irrelevant for purposes of this enquiry. See n. 18, *infra*, discussing good faith.

Almost a year later, after nearly a quarter of a million copies of the recording had been sold, Acuff-Rose sued 2 Live Crew and its record company, Luke Skyywalker Records, for copyright infringement. The District Court granted summary judgment for 2 Live Crew, [FN3] reasoning that the commercial purpose of 2 Live Crew's song was no bar to fair use; that 2 Live Crew's version was a parody, which "quickly degenerates into a play on words, substituting predictable lyrics with shocking ones" to show "how bland and banal the Orbison song" is; that 2 Live Crew had taken no more than was necessary to "conjure up" the original in order to parody it; and that it was "extremely unlikely that 2 Live Crew's song could adversely affect the market for the original." 754 F.Supp. 1150, 1154-1155, 1157-1158 (MD Tenn.1991). The District Court weighed these factors and held that 2 Live Crew's song made fair use of Orbison's original. *Id.*, at 1158-1159.

FN3. 2 Live Crew's motion to dismiss was converted to a motion for summary judgment. Acuff-Rose defended against the motion, but filed no cross-motion.

The Court of Appeals for the Sixth Circuit reversed and remanded. 972 F.2d 1429, 1439 (1992). Although it assumed for the purpose of its opinion that 2 Live Crew's song *574 was a parody of the Orbison original, the Court of Appeals thought the District Court had put too little emphasis on the fact that "every commercial use ... is presumptively ... unfair," *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 451, 104 S.Ct. 774, 792, 78 L.Ed.2d 574 (1984), and it held that "the admittedly commercial nature" **1169 of the parody "requires the conclusion" that the first of four factors relevant under the statute weighs against a finding of fair use. 972 F.2d, at 1435, 1437. Next, the Court of Appeals determined that, by "taking the heart of the original and making it the heart of a new work," 2 Live Crew had, qualitatively, taken too much. *Id.*, at 1438. Finally, after noting that the effect on the potential market for the original (and the market for derivative works) is "undoubtedly the single most important

element of fair use," *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 566, 105 S.Ct. 2218, 2233, 85 L.Ed.2d 588 (1985), the Court of Appeals faulted the District Court for "refus[ing] to indulge the presumption" that "harm for purposes of the fair use analysis has been established by the presumption attaching to commercial uses." 972 F.2d, at 1438-1439. In sum, the court concluded that its "blatantly commercial purpose ... prevents this parody from being a fair use." *Id.*, at 1439.

We granted certiorari, 507 U.S. 1003, 113 S.Ct. 1642, 123 L.Ed.2d 264 (1993), to determine whether 2 Live Crew's commercial parody could be a fair use.

II

It is uncontested here that 2 Live Crew's song would be an infringement of Acuff-Rose's rights in "Oh, Pretty Woman," under the Copyright Act of 1976, 17 U.S.C. § 106 (1988 ed. and Supp. IV), but for a finding of fair use through parody. [FN4] *575 From the infancy of copyright protection, some opportunity for fair use of copyrighted materials has been thought necessary to fulfill copyright's very purpose, "[t]o promote the Progress of Science and useful Arts...." U.S. Const., Art. I, § 8, cl. 8. [FN5] For as Justice Story explained, "[i]n truth, in literature, in science and in art, there are, and can be, few, if any, things, which in an abstract sense, are strictly new and original throughout. Every book in literature, science and art, borrows, and must necessarily borrow, and use much which was well known and used before." *Emerson v. Davies*, 8 F.Cas. 615, 619 (No. 4,436) (CCD Mass.1845). Similarly, Lord Ellenborough expressed the inherent tension in the need simultaneously to protect copyrighted material and to allow others to build upon it when he wrote, "while I shall think myself bound to secure every man in the enjoyment of his copy-right, one must not put manacles upon science." *576 *Carey v. Kearsley*, 4 Esp. 168, 170, 170 Eng.Rep. 679, 681 (K.B.1803). In copyright cases brought under the Statute of Anne of 1710, [FN6] English courts held that in some instances "fair abridgements" would

****1170** not infringe an author's rights, see W. Patry, *The Fair Use Privilege in Copyright Law* 6-17 (1985) (hereinafter Patry); Leval, *Toward a Fair Use Standard*, 103 Harv.L.Rev. 1105 (1990) (hereinafter Leval), and although the First Congress enacted our initial copyright statute, Act of May 31, 1790, 1 Stat. 124, without any explicit reference to "fair use," as it later came to be known, [FN7] the doctrine was recognized by the American courts nonetheless.

FN4. Section 106 provides in part:

"Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

"(1) to reproduce the copyrighted work in copies or phonorecords;

"(2) to prepare derivative works based upon the copyrighted work;

"(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending...."

A derivative work is defined as one "based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a 'derivative work.' " 17 U.S.C. § 101.

2 Live Crew concedes that it is not entitled to a compulsory license under § 115 because its arrangement changes "the basic melody or fundamental character" of the original. § 115(a)(2).

FN5. The exclusion of facts and ideas from copyright protection serves that goal as well. See § 102(b) ("In no case does copyright protection for an

original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery ..."); *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, 359, 111 S.Ct. 1282, 1294, 113 L.Ed.2d 358 (1991) ("[F]acts contained in existing works may be freely copied"); *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 547, 105 S.Ct. 2218, 2223, 85 L.Ed.2d 588 (1985) (copyright owner's rights exclude facts and ideas, and fair use).

FN6. *An Act for the Encouragement of Learning*, 8 Anne, ch. 19.

FN7. Patry 27, citing *Lawrence v. Dana*, 15 F.Cas. 26, 60 (No. 8,136) (CCD Mass.1869).

[1] In *Folsom v. Marsh*, 9 F.Cas. 342 (No. 4,901) (CCD Mass. 1841), Justice Story distilled the essence of law and methodology from the earlier cases: "look to the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work." *Id.*, at 348. Thus expressed, fair use remained exclusively judge-made doctrine until the passage of the 1976 Copyright Act, in which Justice Story's summary is discernible: [FN8]

FN8. Leval 1105. For a historical account of the development of the fair use doctrine, see Patry 1-64.

"§ 107. Limitations on exclusive rights: Fair use

"Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use

made of a work in any particular ***577** case is a fair use the factors to be considered shall include--

"(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

"(2) the nature of the copyrighted work;

"(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

"(4) the effect of the use upon the potential market for or value of the copyrighted work.

"The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors." 17 U.S.C. § 107 (1988 ed. and Supp. IV).

Congress meant § 107 "to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way" and intended that courts continue the common-law tradition of fair use adjudication. H.R.Rep. No. 94- 1476, p. 66 (1976) (hereinafter House Report); S.Rep. No. 94-473, p. 62 (1975) U.S.Code Cong. & Admin.News 1976, pp. 5659, 5679 (hereinafter Senate Report). The fair use doctrine thus "permits [and requires] courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster." *Stewart v. Abend*, 495 U.S. 207, 236, 110 S.Ct. 1750, 1767, 109 L.Ed.2d 184 (1990) (internal quotation marks and citation omitted).

[2] The task is not to be simplified with bright-line rules, for the statute, like the doctrine it recognizes, calls for case-by-case analysis. *Harper & Row*, 471 U.S., at 560, 105 S.Ct., at 2230; *Sony*, 464 U.S., at 448, and n. 31, 104 S.Ct., at 792, & n. 31; House Report, pp. 65-66; Senate Report, p. 62. The text employs the terms "including" and "such as" in the preamble paragraph to indicate the "illustrative and not limitative" function of the examples given, § 101; see *Harper & Row*, supra, 471 U.S., at 561, 105 S.Ct., at 2230, which thus provide only general guidance about the sorts of copying that courts and ***578** Congress most commonly had found to be fair uses. [FN9] Nor may the four ****1171** statutory

factors be treated in isolation, one from another. All are to be explored, and the results weighed together, in light of the purposes of copyright. See Leval 1110-1111; Patry & Perlmutter, *Fair Use Misconstrued: Profit, Presumptions, and Parody*, 11 *Cardozo Arts & Ent.L.J.* 667, 685-687 (1993) (hereinafter Patry & Perlmutter). [FN10]

FN9. See Senate Report, p. 62 ("[W]hether a use referred to in the first sentence of section 107 is a fair use in a particular case will depend upon the application of the determinative factors").

FN10. Because the fair use enquiry often requires close questions of judgment as to the extent of permissible borrowing in cases involving parodies (or other critical works), courts may also wish to bear in mind that the goals of the copyright law, "to stimulate the creation and publication of edifying matter,"

Leval 1134, are not always best served by automatically granting injunctive relief when parodists are found to have gone beyond the bounds of fair use. See 17 U.S.C. § 502(a) (court "may ... grant ... injunctions on such terms as it may deem reasonable to prevent or restrain infringement") (emphasis added); Leval 1132 (while in the "vast majority of cases, [an injunctive] remedy is justified because most infringements are simple piracy," such cases are "worlds apart from many of those raising reasonable contentions of fair use" where "there may be a strong public interest in the publication of the secondary work [and] the copyright owner's interest may be adequately protected by an award of damages for whatever infringement is found"); *Abend v. MCA, Inc.*,

863 F.2d 1465, 1479 (CA9 1988) (finding "special circumstances" that would cause "great injustice" to defendants and "public injury" were injunction to issue), aff'd sub nom. *Stewart v. Abend*, 495 U.S. 207, 110 S.Ct. 1750, 109 L.Ed.2d 184 (1990).

A

[3][4] The first factor in a fair use enquiry is "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes." § 107(1). This factor draws on Justice Story's formulation, "the nature and objects of the selections made." *Folsom v. Marsh*, supra, at 348. The enquiry here may be guided by the examples given in the preamble to § 107, looking to whether the use is for criticism, or comment, or news reporting, *579 and the like, see § 107. The central purpose of this investigation is to see, in Justice Story's words, whether the new work merely "supersede[s] the objects" of the original creation, *Folsom v. Marsh*, supra, at 348; accord, *Harper & Row*, supra, 471 U.S., at 562, 105 S.Ct., at 2231 ("supplanting" the original), or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message; it asks, in other words, whether and to what extent the new work is "transformative." Leval 1111. Although such transformative use is not absolutely necessary for a finding of fair use, *Sony*, supra, 464 U.S., at 455, n. 40, 104 S.Ct., at 795, n. 40, [FN11] the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works. Such works thus lie at the heart of the fair use doctrine's guarantee of breathing space within the confines of copyright, see, e.g., *Sony*, supra, at 478-480, 104 S.Ct., at 807-808 (BLACKMUN, J., dissenting), and the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.

FN11. The obvious statutory exception to this focus on transformative uses is the straight reproduction of multiple copies for classroom distribution.

[5] This Court has only once before even considered whether parody may be fair use, and that time issued no opinion because of the Court's equal division. *Benny v. Loew's Inc.*, 239 F.2d 532 (CA9 1956), aff'd sub nom. *Columbia Broadcasting System, Inc. v. Loew's Inc.*, 356 U.S. 43, 78 S.Ct. 667, 2 L.Ed.2d 583 (1958). Suffice it to say now that parody has an obvious claim to transformative value, as Acuff-Rose itself does not deny. Like less ostensibly humorous forms of criticism, it can provide social benefit, by shedding light on an earlier work, and, in the process, creating a new one. We thus line up with the courts that have held that parody, like other comment or criticism, may claim fair use under § 107. See, e.g., *Fisher v. Dees*, 794 F.2d 432 (CA9 1986) ("When Sonny Sniffs Glue," a parody of "When Sunny Gets Blue," is fair use); *Elsmere Music, Inc. v. National Broadcasting Co.*, 482 F.Supp. 741 *580 SDNY), aff'd, 623 F.2d 252 (CA2 1980) ("I Love Sodom," a "Saturday **1172 Night Live" television parody of "I Love New York," is fair use); see also House Report, p. 65; Senate Report, p. 61, U.S.Code Cong. & Admin.News 1976, pp. 5659, 5678 ("[U]se in a parody of some of the content of the work parodied" may be fair use).

[6] The germ of parody lies in the definition of the Greek *parodeia*, quoted in Judge Nelson's Court of Appeals dissent, as "a song sung alongside another." 972 F.2d, at 1440, quoting 7 *Encyclopedia Britannica* 768 (15th ed. 1975). Modern dictionaries accordingly describe a parody as a "literary or artistic work that imitates the characteristic style of an author or a work for comic effect or ridicule," [FN12] or as a "composition in prose or verse in which the characteristic turns of thought and phrase in an author or class of authors are imitated in such a way as to make them appear ridiculous." [FN13] For the purposes of copyright law, the nub of the definitions, and the heart of any parodist's

claim to quote from existing material, is the use of some elements of a prior author's composition to create a new one that, at least in part, comments on that author's works. See, e.g., *Fisher v. Dees*, supra, at 437; *MCA, Inc. v. Wilson*, 677 F.2d 180, 185 (CA2 1981). If, on the contrary, the commentary has no critical bearing on the substance or style of the original composition, which the alleged infringer merely uses to get attention or to avoid the drudgery in working up something fresh, the claim to fairness in borrowing from another's work diminishes accordingly (if it does not vanish), and other factors, like the extent of its commerciality, loom larger. [FN14] Parody needs to mimic ***581** an original to make its point, and so has some claim to use the creation of its victim's (or collective victims') imagination, whereas satire can stand on its own two feet and so requires justification for the very act of borrowing. [FN15] See *ibid.*; Bisceglia, *Parody and Copyright Protection: Turning the Balancing Act Into a Juggling Act*, in *ASCAP, Copyright Law Symposium*, No. 34, p. 25 (1987).

FN12. *American Heritage Dictionary* 1317 (3d ed. 1992).

FN13. *11 Oxford English Dictionary* 247 (2d ed. 1989).

FN14. A parody that more loosely targets an original than the parody presented here may still be sufficiently aimed at an original work to come within our analysis of parody. If a parody whose wide dissemination in the market runs the risk of serving as a substitute for the original or licensed derivatives (see *infra* at 1177-1179, discussing factor four), it is more incumbent on one claiming fair use to establish the extent of transformation and the parody's critical relationship to the original. By contrast, when there is little or no risk of market substitution, whether because of the large extent of transformation of the earlier work, the new work's minimal distribution in the market, the small

extent to which it borrows from an original, or other factors, taking parodic aim at an original is a less critical factor in the analysis, and looser forms of parody may be found to be fair use, as may satire with lesser justification for the borrowing than would otherwise be required.

FN15. Satire has been defined as a work "in which prevalent follies or vices are assailed with ridicule," 14 *Oxford English Dictionary*, supra, at 500, or are "attacked through irony, derision, or wit," *American Heritage Dictionary*, supra, at 1604.

The fact that parody can claim legitimacy for some appropriation does not, of course, tell either parodist or judge much about where to draw the line. Like a book review quoting the copyrighted material criticized, parody may or may not be fair use, and petitioners' suggestion that any parodic use is presumptively fair has no more justification in law or fact than the equally hopeful claim that any use for news reporting should be presumed fair, see *Harper & Row*, 471 U.S., at 561, 105 S.Ct., at 2230. The Act has no hint of an evidentiary preference for parodists over their victims, and no workable presumption for parody could take account of the fact that parody often shades into satire when society is lampooned through its creative artifacts, or that a work may contain both parodic and nonparodic elements. Accordingly, parody, like any other use, has to work its way through the relevant factors, and be judged case by case, in light of the ends of the copyright law.

Here, the District Court held, and the Court of Appeals assumed, that 2 Live ****1173** Crew's "Pretty Woman" contains parody, ***582** commenting on and criticizing the original work, whatever it may have to say about society at large. As the District Court remarked, the words of 2 Live Crew's song copy the original's first line, but then "quickly degenerat[e] into a play on words, substituting predictable lyrics with shocking ones ... [that] derisively demonstrat[e] how bland and banal

the Orbison song seems to them." 754 F.Supp., at 1155 (footnote omitted). Judge Nelson, dissenting below, came to the same conclusion, that the 2 Live Crew song "was clearly intended to ridicule the white-bread original" and "reminds us that sexual congress with nameless streetwalkers is not necessarily the stuff of romance and is not necessarily without its consequences. The singers (there are several) have the same thing on their minds as did the lonely man with the nasal voice, but here there is no hint of wine and roses." 972 F.2d, at 1442. Although the majority below had difficulty discerning any criticism of the original in 2 Live Crew's song, it assumed for purposes of its opinion that there was some. *Id.*, at 1435-1436, and n. 8.

[7] We have less difficulty in finding that critical element in 2 Live Crew's song than the Court of Appeals did, although having found it we will not take the further step of evaluating its quality. The threshold question when fair use is raised in defense of parody is whether a parodic character may reasonably be perceived. [FN16] Whether, going beyond that, parody is in good taste or bad does not and should not matter to fair use. As Justice Holmes explained, "[i]t would be a dangerous undertaking for persons trained only to the law to constitute themselves final judges of the worth of [a work], outside of the narrowest and most obvious limits. At *583 the one extreme some works of genius would be sure to miss appreciation. Their very novelty would make them repulsive until the public had learned the new language in which their author spoke." *Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239, 251, 23 S.Ct. 298, 300, 47 L.Ed. 460 (1903) (circus posters have copyright protection); cf. *Yankee Publishing Inc. v. News America Publishing, Inc.*, 809 F.Supp. 267, 280 (SDNY 1992) (Leval, J.) ("First Amendment protections do not apply only to those who speak clearly, whose jokes are funny, and whose parodies succeed") (trademark case).

FN16. The only further judgment, indeed, that a court may pass on a work goes to an assessment of

whether the parodic element is slight or great, and the copying small or extensive in relation to the parodic element, for a work with slight parodic element and extensive copying will be more likely to merely "supersede the objects" of the original. See *infra*, at 1175-79, discussing factors three and four.

While we might not assign a high rank to the parodic element here, we think it fair to say that 2 Live Crew's song reasonably could be perceived as commenting on the original or criticizing it, to some degree. 2 Live Crew juxtaposes the romantic musings of a man whose fantasy comes true, with degrading taunts, a bawdy demand for sex, and a sigh of relief from paternal responsibility. The later words can be taken as a comment on the naivete of the original of an earlier day, as a rejection of its sentiment that ignores the ugliness of street life and the debasement that it signifies. It is this joinder of reference and ridicule that marks off the author's choice of parody from the other types of comment and criticism that traditionally have had a claim to fair use protection as transformative works. [FN17]

FN17. We note in passing that 2 Live Crew need not label their whole album, or even this song, a parody in order to claim fair use protection, nor should 2 Live Crew be penalized for this being its first parodic essay. Parody serves its goals whether labeled or not, and there is no reason to require parody to state the obvious (or even the reasonably perceived). See *Patry & Perlmutter* 716-717.

[8][9] The Court of Appeals, however, immediately cut short the enquiry into 2 Live Crew's fair use claim by confining its treatment of the first factor essentially to one relevant fact, the commercial nature of the use. The court then inflated the significance of this fact by applying a presumption ostensibly *584 **1174 culled from *Sony*, that "every commercial use of copyrighted material is presumptively ... unfair...." *Sony*,

464 U.S., at 451, 104 S.Ct., at 792. In giving virtually dispositive weight to the commercial nature of the parody, the Court of Appeals erred.

The language of the statute makes clear that the commercial or nonprofit educational purpose of a work is only one element of the first factor enquiry into its purpose and character. Section 107(1) uses the term "including" to begin the dependent clause referring to commercial use, and the main clause speaks of a broader investigation into "purpose and character." As we explained in *Harper & Row*, Congress resisted attempts to narrow the ambit of this traditional enquiry by adopting categories of presumptively fair use, and it urged courts to preserve the breadth of their traditionally ample view of the universe of relevant evidence. 471 U.S., at 561, 105 S.Ct. at 2230; House Report, p. 66, U.S.Code Cong. & Admin.News 1976, pp. 5659, 5679. Accordingly, the mere fact that a use is educational and not for profit does not insulate it from a finding of infringement, any more than the commercial character of a use bars a finding of fairness. If, indeed, commerciality carried presumptive force against a finding of fairness, the presumption would swallow nearly all of the illustrative uses listed in the preamble paragraph of § 107, including news reporting, comment, criticism, teaching, scholarship, and research, since these activities "are generally conducted for profit in this country." *Harper & Row*, supra, at 592, 105 S.Ct., at 2246 (Brennan, J., dissenting). Congress could not have intended such a rule, which certainly is not inferable from the common-law cases, arising as they did from the world of letters in which Samuel Johnson could pronounce that "[n]o man but a blockhead ever wrote, except for money." 3 *Boswell's Life of Johnson* 19 (G. Hill ed. 1934).

Sony itself called for no hard evidentiary presumption. There, we emphasized the need for a "sensitive balancing of interests," 464 U.S., at 455, n. 40, 104 S.Ct., at 795, n. 40, noted that Congress had "eschewed a rigid, bright-line approach to fair use," *id.*, at *585 449, n. 31, 104 S.Ct., at 792, n. 31, and

stated that the commercial or nonprofit educational character of a work is "not conclusive," *id.*, at 448-449, 104 S.Ct., at 792, but rather a fact to be "weighed along with other[s] in fair use decisions," *id.*, at 449, n. 32, 104 S.Ct. at 792, n. 32, (quoting House Report, p. 66) U.S.Code Cong. & Admin.News 1976, pp. 5659, 5679. The Court of Appeals's elevation of one sentence from *Sony* to a per se rule thus runs as much counter to *Sony* itself as to the long common-law tradition of fair use adjudication. Rather, as we explained in *Harper & Row*, *Sony* stands for the proposition that the "fact that a publication was commercial as opposed to nonprofit is a separate factor that tends to weigh against a finding of fair use." 471 U.S., at 562, 105 S.Ct., at 2231. But that is all, and the fact that even the force of that tendency will vary with the context is a further reason against elevating commerciality to hard presumptive significance. The use, for example, of a copyrighted work to advertise a product, even in a parody, will be entitled to less indulgence under the first factor of the fair use enquiry than the sale of a parody for its own sake, let alone one performed a single time by students in school. See generally *Patry & Perlmutter* 679- 680; *Fisher v. Dees*, 794 F.2d, at 437; *Maxtone-Graham v. Burtchael*, 803 F.2d 1253, 1262 (CA2 1986); *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1522 (CA9 1992). [FN18]

FN18. Finally, regardless of the weight one might place on the alleged infringer's state of mind, compare *Harper & Row*, 471 U.S., at 562, 105 S.Ct., at 2231 (fair use presupposes good faith and fair dealing) (quotation marks omitted), with *Folsom v. Marsh*, 9 F.Cas. 342, 349 (No. 4,901) (CCD Mass.1841) (good faith does not bar a finding of infringement); *Leval* 1126-1127 (good faith irrelevant to fair use analysis), we reject Acuff-Rose's argument that 2 Live Crew's request for permission to use the original should be weighed against a finding of fair use. Even if good faith were central to fair use, 2 Live Crew's actions do not necessarily suggest

that they believed their version was not fair use; the offer may simply have been made in a good-faith effort to avoid this litigation. If the use is otherwise fair, then no permission need be

sought or granted. Thus, being denied permission to use a work does not weigh against a finding of fair use. See *Fisher v. Dees*, 794 F.2d 432, 437 (CA9 1986).

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[10] The second statutory factor, "the nature of the copyrighted work," § 107(2), draws on Justice Story's expression, the "value of the materials used." *Folsom v. Marsh*, 9 F.Cas., at 348. This factor calls for recognition that some works are closer to the core of intended copyright protection than others, with the consequence that fair use is more difficult to establish when the former works are copied. See, e.g., *Stewart v. Abend*, 495 U.S., at 237-238, 110 S.Ct., at 1768-1769 (contrasting fictional short story with factual works); *Harper & Row*, 471 U.S., at 563-564, 105 S.Ct., at 2231-2233 (contrasting soon-to-be-published memoir with published speech); *Sony*, 464 U.S., at 455, n. 40, 104 S.Ct., at 792, n. 40 (contrasting motion pictures with news broadcasts); *Feist*, 499 U.S., at 348-351, 111 S.Ct., at 1289-1291 (contrasting creative works with bare factual compilations); 3 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 13.05[A][2] (1993) (hereinafter *Nimmer*); *Leval* 1116. We agree with both the District Court and the Court of Appeals that the Orbison original's creative expression for public dissemination falls within the core of the copyright's protective purposes. 754 F.Supp., at 1155-1156; 972 F.2d, at 1437. This fact, however, is not much help in this case, or ever likely to help much in separating the fair use sheep from the infringing goats in a parody case, since parodies almost invariably copy publicly known, expressive works.

C

[11] The third factor asks whether "the amount and substantiality of the portion used in relation to the copyrighted work as a whole," § 107(3) (or, in Justice Story's words, "the quantity and value of the materials used," *Folsom v. Marsh*, supra, at 348) are reasonable in relation to the purpose of the copying. Here, attention turns to the persuasiveness of a parodist's justification for the particular copying done, and the enquiry will harken back to the first of the statutory factors, for, as in prior cases, we recognize that the extent of permissible copying varies with the purpose and character *587 of the use. See *Sony*, supra, 464 U.S., at 449-450, 104 S.Ct., at 792-793 (reproduction of entire work "does not have its ordinary effect of militating against a finding of fair use" as to home videotaping of television programs); *Harper & Row*, supra, 471 U.S., at 564, 105 S.Ct., at 2232 ("[E]ven substantial quotations might qualify as fair use in a review of a published work or a news account of a speech" but not in a scoop of a soon-to-be-published memoir). The facts bearing on this factor will also tend to address the fourth, by revealing the degree to which the parody may serve as a market substitute for the original or potentially licensed derivatives. See *Leval* 1123.

The District Court considered the song's parodic purpose in finding that 2 Live Crew had not helped themselves overmuch. 754 F.Supp., at 1156-1157. The Court of Appeals disagreed, stating that "[w]hile it may not be inappropriate to find that no more was taken than necessary, the copying was qualitatively substantial.... We conclude that taking the heart of the original and making it the heart of a new work was to purloin a substantial portion of the essence of the original." 972 F.2d, at 1438.

The Court of Appeals is of course correct that this factor calls for thought not only about the quantity of the materials used, but about their quality and importance, too. In *Harper & Row*, for example, the Nation had taken only some 300 words out of President Ford's memoirs, but we signaled the significance of the quotations in finding them to amount to "the

heart of the book," the part most likely to be newsworthy and important in licensing serialization. 471 U.S., at 564-566, 568, 105 S.Ct., at 2232-2234, 2234 (internal quotation marks omitted). We also agree with the Court of Appeals that whether "a substantial portion of the infringing work ***1176** was copied verbatim" from the copyrighted work is a relevant question, see *id.*, at 565, 105 S.Ct., at 2232, for it may reveal a dearth of transformative character or purpose under the first factor, or a greater likelihood of market harm under the fourth; a work composed primarily of an original, particularly its heart, with little added or changed, ***588** is more likely to be a merely superseding use, fulfilling demand for the original.

Where we part company with the court below is in applying these guides to parody, and in particular to parody in the song before us. Parody presents a difficult case. Parody's humor, or in any event its comment, necessarily springs from recognizable allusion to its object through distorted imitation. Its art lies in the tension between a known original and its parodic twin. When parody takes aim at a particular original work, the parody must be able to "conjure up" at least enough of that original to make the object of its critical wit recognizable. See, e.g., *Elsmere Music*, 623 F.2d, at 253, n. 1; *Fisher v. Dees*, 794 F.2d, at 438-439. What makes for this recognition is quotation of the original's most distinctive or memorable features, which the parodist can be sure the audience will know. Once enough has been taken to assure identification, how much more is reasonable will depend, say, on the extent to which the song's overriding purpose and character is to parody the original or, in contrast, the likelihood that the parody may serve as a market substitute for the original. But using some characteristic features cannot be avoided.

[12] We think the Court of Appeals was insufficiently appreciative of parody's need for the recognizable sight or sound when it ruled 2 Live Crew's use unreasonable as a matter of law. It is true, of course, that 2 Live Crew copied the characteristic opening bass riff (or

musical phrase) of the original, and true that the words of the first line copy the Orbison lyrics. But if quotation of the opening riff and the first line may be said to go to the "heart" of the original, the heart is also what most readily conjures up the song for parody, and it is the heart at which parody takes aim. Copying does not become excessive in relation to parodic purpose merely because the portion taken was the original's heart. If 2 Live Crew had copied a significantly less memorable part of the original, it is difficult to see how its parodic character ***589** would have come through. See *Fisher v. Dees*, *supra*, at 439.

[13] This is not, of course, to say that anyone who calls himself a parodist can skim the cream and get away scot free. In parody, as in news reporting, see *Harper & Row*, *supra*, context is everything, and the question of fairness asks what else the parodist did besides go to the heart of the original. It is significant that 2 Live Crew not only copied the first line of the original, but thereafter departed markedly from the Orbison lyrics for its own ends. 2 Live Crew not only copied the bass riff and repeated it, [FN19] but also produced otherwise distinctive sounds, interposing "scraper" noise, overlaying the music with solos in different keys, and altering the drum beat. See 754 F.Supp., at 1155. This is not a case, then, where "a substantial portion" of the parody itself is composed of a "verbatim" copying of the original. It is not, that is, a case where the parody is so insubstantial, as compared to the copying, that the third factor must be resolved as a matter of law against the parodists.

FN19. This may serve to heighten the comic effect of the parody, as one witness stated, App. 32a, Affidavit of Oscar Brand; see also *Elsmere Music, Inc. v. National Broadcasting Co.*, 482 F.Supp. 741, 747 (SDNY 1980) (repetition of "I Love Sodom"), or serve to dazzle with the original's music, as Acuff-Rose now contends.

Suffice it to say here that, as to the lyrics, we think the Court of Appeals correctly suggested that "no more was taken than necessary," 972

F.2d, at 1438, but just for that reason, we fail to see how the copying can be excessive in relation to its parodic purpose, even if the portion taken is the original's "heart." As to the music, we express no opinion whether repetition of the bass riff is excessive copying, and we remand to permit ***1177** evaluation of the amount taken, in light of the song's parodic purpose and character, its transformative elements, and considerations of the potential for market substitution sketched more fully below.

***590 D**

[14] The fourth fair use factor is "the effect of the use upon the potential market for or value of the copyrighted work." § 107(4). It requires courts to consider not only the extent of market harm caused by the particular actions of the alleged infringer, but also "whether unrestricted and widespread conduct of the sort engaged in by the defendant ... would result in a substantially adverse impact on the potential market" for the original. *Nimmer* § 13.05[A] [4], p. 13-102.61 (footnote omitted); accord, *Harper & Row*, 471 U.S., at 569, 105 S.Ct., at 2235; Senate Report, p. 65; *Folsom v. Marsh*, 9 F.Cas., at 349. The enquiry "must take account not only of harm to the original but also of harm to the market for derivative works." *Harper & Row*, supra, 471 U.S. at 568, 105 S.Ct., at 2234.

[15] Since fair use is an affirmative defense, [FN20] its proponent would have difficulty carrying the burden of demonstrating fair use without favorable evidence about relevant markets. [FN21] In moving for summary judgment, 2 Live Crew left themselves at just such a disadvantage when they failed to address the effect on the market for rap derivatives, and confined themselves to uncontroverted submissions that there was no likely effect on the market for the original. They did not, however, thereby subject themselves to the evidentiary presumption applied by the Court of Appeals. In assessing the likelihood of significant market harm, the Court of Appeals ***591** quoted from language in *Sony* that " '[i]f the intended use is for commercial gain, that likelihood may be presumed. But if it is for a noncommercial

purpose, the likelihood must be demonstrated.' " 972 F.2d, at 1438, quoting *Sony*, 464 U.S., at 451, 104 S.Ct., at 104 S.Ct., at 793. The court reasoned that because "the use of the copyrighted work is wholly commercial, ... we presume that a likelihood of future harm to Acuff-Rose exists." 972 F.2d, at 1438. In so doing, the court resolved the fourth factor against 2 Live Crew, just as it had the first, by applying a presumption about the effect of commercial use, a presumption which as applied here we hold to be error.

FN20. *Harper & Row*, 471 U.S., at 561, 105 S.Ct., at 2230; H.R.Rep. No. 102-836, p. 3, n. 3 (1992).

FN21. Even favorable evidence, without more, is no guarantee of fairness. Judge Leval gives the example of the film producer's appropriation of a composer's previously unknown song that turns the song into a commercial success; the boon to the song does not make the film's simple copying fair. Leval 1124, n. 84. This factor, no less than the other three, may be addressed only through a "sensitive balancing of interests." *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 455, n. 40, 104 S.Ct. 774, 795, n. 40, 78 L.Ed.2d 574 (1984). Market harm is a matter of degree, and the importance of this factor will vary, not only with the amount of harm, but also with the relative strength of the showing on the other factors.

No "presumption" or inference of market harm that might find support in *Sony* is applicable to a case involving something beyond mere duplication for commercial purposes. *Sony's* discussion of a presumption contrasts a context of verbatim copying of the original in its entirety for commercial purposes, with the noncommercial context of *Sony* itself (home copying of television programming). In the former circumstances, what *Sony* said simply makes common sense: when a commercial

use amounts to mere duplication of the entirety of an original, it clearly "supersede[s] the objects," *Folsom v. Marsh*, supra, at 348, of the original and serves as a market replacement for it, making it likely that cognizable market harm to the original will occur. *Sony*, supra, 464 U.S., at 451, 104 S.Ct., at 793. But when, on the contrary, the second use is transformative, market substitution is at least less certain, and market harm may not be so readily inferred. Indeed, as to parody pure and simple, it is more likely that the new work will not affect the market for the original in a way cognizable under this factor, that is, by acting as a substitute for it ("supersed[ing] ****1178** [its] objects"). See Leval 1125; Patry & Perlmutter 692, 697-698. This is so because the parody and the original usually serve different market functions. *Bisceglia*, ASCAP, Copyright Law Symposium, No. 34, at 23.

[16] We do not, of course, suggest that a parody may not harm the market at all, but when a lethal parody, like a scathing ***592** theater review, kills demand for the original, it does not produce a harm cognizable under the Copyright Act. Because "parody may quite legitimately aim at garroting the original, destroying it commercially as well as artistically," *B. Kaplan*, *An Unhurried View of Copyright* 69 (1967), the role of the courts is to distinguish between "[b]iting criticism [that merely] suppresses demand [and] copyright infringement[, which] usurps it." *Fisher v. Dees*, 794 F.2d, at 438.

This distinction between potentially remediable displacement and unremediable disparagement is reflected in the rule that there is no protectible derivative market for criticism. The market for potential derivative uses includes only those that creators of original works would in general develop or license others to develop. Yet the unlikelihood that creators of imaginative works will license critical reviews or lampoons of their own productions removes such uses from the very notion of a potential licensing market. "People ask ... for criticism, but they only want praise." *S. Maugham*, *Of Human Bondage* 241 (Penguin ed. 1992). Thus, to the extent

that the opinion below may be read to have considered harm to the market for parodies of "Oh, Pretty Woman," see 972 F.2d, at 1439, the court erred. Accord, *Fisher v. Dees*, supra, at 437; Leval 1125; Patry & Perlmutter 688- 691. [FN22]

FN22. We express no opinion as to the derivative markets for works using elements of an original as vehicles for satire or amusement, making no comment on the original or criticism of it.

[17][18] In explaining why the law recognizes no derivative market for critical works, including parody, we have, of course, been speaking of the later work as if it had nothing but a critical aspect (i.e., "parody pure and simple," supra, at 1177). But the later work may have a more complex character, with effects not only in the arena of criticism but also in protectible markets for derivative works, too. In that sort of case, the law looks beyond the criticism to the other elements of the work, as it does here. 2 Live Crew's song comprises not ***593** only parody but also rap music, and the derivative market for rap music is a proper focus of enquiry, see *Harper & Row*, supra, 471 U.S., at 568, 105 S.Ct., at 2234; *Nimmer* § 13.05 [B]. Evidence of substantial harm to it would weigh against a finding of fair use, [FN23] because the licensing of derivatives is an important economic incentive to the creation of originals. See 17 U.S.C. § 106(2) (copyright owner has rights to derivative works). Of course, the only harm to derivatives that need concern us, as discussed above, is the harm of market substitution. The fact that a parody may impair the market for derivative uses by the very effectiveness of its critical commentary is no more relevant under copyright than the like threat to the original market. [FN24]

FN23. See *Nimmer* § 13.05[A][4], p. 13-102.61 ("a substantially adverse impact on the potential market"); Leval 1125 ("reasonably substantial" harm); Patry & Perlmutter 697-698 (same).

FN24. In some cases it may be difficult to determine whence the harm flows. In such cases, the other fair use factors may provide some indicia of the likely source of the harm. A work whose overriding purpose and character is parodic and whose borrowing is slight in relation to its parody will be far less likely to cause cognizable harm than a work with little parodic content and much copying.

[19] Although 2 Live Crew submitted uncontroverted affidavits on the question of market harm to the original, neither they, nor Acuff-Rose, introduced evidence or affidavits addressing the likely effect of 2 Live Crew's parodic rap song on the market for a nonparody, rap version of "Oh, Pretty Woman." And while Acuff-Rose would have us find evidence of a rap market in the very facts that 2 Live Crew recorded a rap parody of "Oh, Pretty Woman" and another rap group sought a license to record a rap derivative, ****1179** there was no evidence that a potential rap market was harmed in any way by 2 Live Crew's parody, rap version. The fact that 2 Live Crew's parody sold as part of a collection of rap songs says very little about the parody's effect on a market for a rap version of the original, either of the music alone or of the music with its lyrics. The District Court essentially passed ***594** on this issue, observing that Acuff-Rose is free to record "whatever version of the original it desires," 754 F.Supp., at 1158; the Court of Appeals went the other way by erroneous presumption. Contrary to each treatment, it is impossible to deal with the fourth factor except by recognizing that a silent record on an important factor bearing on fair use disentitled the proponent of the defense, 2 Live Crew, to summary judgment. The evidentiary hole will doubtless be plugged on remand.

III

It was error for the Court of Appeals to conclude that the commercial nature of 2 Live Crew's parody of "Oh, Pretty Woman"

rendered it presumptively unfair. No such evidentiary presumption is available to address either the first factor, the character and purpose of the use, or the fourth, market harm, in determining whether a transformative use, such as parody, is a fair one. The court also erred in holding that 2 Live Crew had necessarily copied excessively from the Orbison original, considering the parodic purpose of the use. We therefore reverse the judgment of the Court of Appeals and remand the case for further proceedings consistent with this opinion.

It is so ordered.

APPENDIX A TO OPINION OF THE COURT

"Oh, Pretty Woman" by Roy Orbison and William Dees

Pretty Woman, walking down the street,
 Pretty Woman, the kind I like to meet,
 Pretty Woman, I don't believe you, you're not the truth,
 No one could look as good as you
 Mercy
 Pretty Woman, won't you pardon me,
 Pretty Woman, I couldn't help but see,
***595** Pretty Woman, that you look lovely as can be
 Are you lonely just like me?
 Pretty Woman, stop a while,
 Pretty Woman, talk a while,
 Pretty Woman give your smile to me
 Pretty Woman, yeah, yeah, yeah
 Pretty Woman, look my way,
 Pretty Woman, say you'll stay with me
 'Cause I need you, I'll treat you right
 Come to me baby, Be mine tonight
 Pretty Woman, don't walk on by,
 Pretty Woman, don't make me cry,
 Pretty Woman, don't walk away,
 Hey, O.K.
 If that's the way it must be, O.K.
 I guess I'll go on home, it's late
 There'll be tomorrow night, but wait!
 What do I see
 Is she walking back to me?
 Yeah, she's walking back to me!
 Oh, Pretty Woman.

APPENDIX B TO OPINION OF THE COURT

"Pretty Woman" as Recorded by 2 Live Crew

Pretty woman walkin' down the street
 Pretty woman girl you look so sweet
 Pretty woman you bring me down to that
 knee
 Pretty woman you make me wanna beg
 please
 Oh, pretty woman
 Big hairy woman you need to shave that
 stuff
 Big hairy woman you know I bet it's tough
 Big hairy woman all that hair it ain't legit
 *596 'Cause you look like 'Cousin It'
 Big hairy woman
 **1180 Bald headed woman girl your hair
 won't grow
 Bald headed woman you got a teeny weeny
 afro
 Bald headed woman you know your hair
 could look nice
 Bald headed woman first you got to roll it
 with rice
 Bald headed woman here, let me get this
 hunk of biz for ya
 Ya know what I'm saying you look better
 than rice a roni
 Oh bald headed woman
 Big hairy woman come on in
 And don't forget your bald headed friend
 Hey pretty woman let the boys
 Jump in
 Two timin' woman girl you know you ain't
 right
 Two timin' woman you's out with my boy
 last night
 Two timin' woman that takes a load off my
 mind
 Two timin' woman now I know the baby ain't
 mine
 Oh, two timin' woman
 Oh pretty woman

Justice KENNEDY, concurring.

I agree that remand is appropriate and join the opinion of the Court, with these further observations about the fair use analysis of parody.

The common-law method instated by the fair use provision of the copyright statute, 17 U.S.C. § 107 (1988 ed. and Supp. IV), presumes that rules will emerge from the

course of decisions. I agree that certain general principles are now discernible to define the fair use exception for parody. One of these rules, as the Court observes, is that parody may qualify as fair use regardless of whether it is published or performed *597 for profit. Ante, at 1178. Another is that parody may qualify as fair use only if it draws upon the original composition to make humorous or ironic commentary about that same composition. Ante, at 1172. It is not enough that the parody use the original in a humorous fashion, however creative that humor may be. The parody must target the original, and not just its general style, the genre of art to which it belongs, or society as a whole (although if it targets the original, it may target those features as well). See *Rogers v. Koons*, 960 F.2d 301, 310 (CA2 1992) ("[T]hough the satire need not be only of the copied work and may ... also be a parody of modern society, the copied work must be, at least in part, an object of the parody"); *Fisher v. Dees*, 794 F.2d 432, 436 (CA9 1986) ("[A] humorous or satiric work deserves protection under the fair-use doctrine only if the copied work is at least partly the target of the work in question"). This prerequisite confines fair use protection to works whose very subject is the original composition and so necessitates some borrowing from it. See *MCA, Inc. v. Wilson*, 677 F.2d 180, 185 (CA2 1981) ("[I]f the copyrighted song is not at least in part an object of the parody, there is no need to conjure it up"); Bisceglia, *Parody and Copyright Protection: Turning the Balancing Act Into a Juggling Act*, in *ASCAP, Copyright Law Symposium*, No. 34, pp. 23-29 (1987). It also protects works we have reason to fear will not be licensed by copyright holders who wish to shield their works from criticism. See *Fisher*, supra, at 437 ("Self-esteem is seldom strong enough to permit the granting of permission even in exchange for a reasonable fee"); Posner, *When Is Parody Fair Use?*, 21 *J. Legal Studies* 67, 73 (1992) ("There is an obstruction when the parodied work is a target of the parodist's criticism, for it may be in the private interest of the copyright owner, but not in the social interest, to suppress criticism of the work") (emphasis deleted).

If we keep the definition of parody within these limits, we have gone most of the way towards satisfying the four-factor *598 fair use test in § 107. The first factor (the purpose and character of use) itself concerns the definition of parody. The second factor (the nature of the copyrighted work) adds little to the first, since "parodies almost invariably **1181 copy publicly known, expressive works." Ante, at 1175. The third factor (the amount and substantiality of the portion used in relation to the whole) is likewise subsumed within the definition of parody. In determining whether an alleged parody has taken too much, the target of the parody is what gives content to the inquiry. Some parodies, by their nature, require substantial copying. See *Elsmere Music, Inc. v. National Broadcasting Co.*, 623 F.2d 252 (CA2 1980) (holding that "I Love Sodom" skit on "Saturday Night Live" is legitimate parody of the "I Love New York" campaign). Other parodies, like Lewis Carroll's "You Are Old, Father William," need only take parts of the original composition. The third factor does reinforce the principle that courts should not accord fair use protection to profiteers who do no more than add a few silly words to someone else's song or place the characters from a familiar work in novel or eccentric poses. See, e.g., *Walt Disney Productions v. Air Pirates*, 581 F.2d 751 (CA9 1978); *DC Comics Inc. v. Unlimited Monkey Business, Inc.*, 598 F.Supp. 110 (ND Ga.1984). But, as I believe the Court acknowledges, ante, at 1176-77, it is by no means a test of mechanical application. In my view, it serves in effect to ensure compliance with the targeting requirement.

Not Reported in F.Supp.

65 USLW 2334,

1997 Copr.L.Dec. P 27,623,

40 U.S.P.Q.2d 1569,

24 Media L. Rep. 2473

(Cite as: 1996 WL 633131 (E.D.Va.))

**RELIGIOUS TECHNOLOGY CENTER,
Plaintiff, v. Arnaldo Pagliarina LERMA,
Defendant.**

United States District Court, E.D. Virginia,
Alexandria Division.

Oct. 4, 1996.

CIV.A. No. 95-1107-A.

MEMORANDUM OPINION ON RELIGIOUS
TECHNOLOGY CENTER'S AND ARNALDO
P. LERMA'S
MOTIONS FOR SUMMARY JUDGMENT

BRINKEMA, District Judge.

*1 This matter comes before the Court on plaintiff Religious Technology Center's ("RTC") Motion for Summary Judgment for Copyright Infringement Against Defendant Lerma ("Lerma"). Also under consideration is defendant Arnaldo P. Lerma's (Cross-) Motion for Summary Judgment and/or to Dismiss. Both parties seek final resolution of the allegation that Lerma infringed RTC's copyright when he copied to his computer and/or posted to the Internet sections of sacred and properly copyrighted documents belonging to the Church of Scientology.

Summary judgment is appropriate when the record shows that there is no genuine issue as to any material fact and that the movant is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242 (1986). In ruling on such motions, the court must construe the facts and all inferences drawn from those facts in favor of the non-moving party. *Charbonnages de France v. Smith*, 597 F.2d 406, 414 (4th Cir. 1979).

Based upon the arguments tendered in the briefs and at the hearing, as well as the mass of evidence in this substantial record, the Court finds that Lerma infringed RTC's copyright and that summary judgment should be entered in favor of RTC and against Lerma.

History of the Case

The dispute in this case surrounds Lerma's acquisition and publication on the Internet of texts that the Church of Scientology considers sacred and protects heavily from unauthorized disclosure. Founded by L. Ron Hubbard, the Scientology religion attempts to explain the origin of negative spiritual forces in the world and advances techniques for improving one's own spiritual well-being.

Scientologists believe that most human problems can be traced to lingering spirits of an extraterrestrial people massacred by their ruler, Xenu, over 75 million years ago. These spirits attach themselves by "clusters" to individuals in the contemporary world, causing spiritual harm and negatively influencing the lives of their hosts.

The texts at issue, the "Advanced Technology" or the "Operating Thetan" Documents ("OT Documents"), were written by founder Hubbard and allegedly provide a detailed program for warding off these evil influences through the creation of "free zones." The OT Documents outline a process that must be executed precisely according to the procedures laid out by Hubbard and under the guidance of an assisting church official in order to be efficacious.

Church doctrine teaches that improper disclosure of the OT Documents, both to non-Scientologists and even to church members if done prematurely, prevents achievement of the desired effect. Unauthorized disclosure also risks further harm of global proportions. See *Religious Technology Center v. Lerma*, 908 F.Supp 1353, 1358 (E.D.Va. 1995). Hubbard explicitly directed that the OT Documents be released only in strict accordance with his guidelines, and that they remain otherwise secret and secure.

Consequently, the church has charged RTC, the plaintiff in this case, with securing the sacred texts and aggressively policing any breaches in security or unauthorized disclosures that may occur. RTC has enacted a comprehensive protection plan that includes locked vaults, numerous guards, key cards, and signed nondisclosure statements by all church members. RTC has also been relentless in tracking down suspected offenders and vigorously pursuing legal remedies against them.

*2 This litigation initially consisted of both trade secret and copyright infringement counts against multiple defendants, including Lerma, Digital Gateway Systems (Lerma's access provider to the Internet), The

Washington Post (which published a story about the case which quoted fractions of the OT Documents), Marc Fisher (a Washington Post reporter), and Richard Leiby (a Washington Post reporter). However, the Court earlier dismissed the trade secrets count as to all defendants and the copyright infringement count as to the Washington Post and its reporters. RTC voluntarily dismissed its claims against Digital Gateway Systems. Therefore, the only issue remaining in the case is RTC's copyright infringement claim against defendant Lerma. Even that issue has been progressively honed, with RTC moving for summary judgment on only a subset of the copyrighted works originally contested in RTC's complaint. [FN1]

FN1. RTC initially alleged that Lerma infringed the copyright of multiple works from several different series or collections of the OT Documents. With its summary judgment motion, RTC now seeks a ruling only on materials excerpted from "OT II", "OT III", "Power", "NOTs", and "the Sunshine Rundown," referred to all the in this motion as the "Works." The Second Amended Complaint contained additional allegations regarding infringement of other materials from "OT I", "OT IV", "OT V", "OT VI", and "OT VIII", however these allegations are not included in RTC's instant Motion for Summary Judgment.

Bases for Copyright Infringement

To establish copyright infringement, two elements must be proven: (1) ownership of a valid copyright, and (2) unauthorized copying of constituent elements of the copyrighted work. *Feist Publications, Inc. v. Rural Telephone Service Company, Inc.*, 499 U.S. 340, 361 (1991). Copyright infringement occurs when there is "substantial unauthorized copying of protected materials from a copyrighted work." Harry G. Henn, *Henn on Copyright Law*, §27.6 (1991).

The first element is effectively uncontested by Lerma. Filed in conjunction with RTC's motion

for summary judgment was a set of exhibits (the "G-Series Exhibits") containing 33 comparisons of RTC's copyrighted works and the "copies" allegedly in Lerma's possession and/or posted by him to the Internet. Each of these exhibits includes the written segment allegedly copied by Lerma, the corresponding Hubbard original, a certificate of copyright registration, a certified photocopy of the masked work on file at the Copyright Office of the United States, and a full (i.e. unmasked) "translation" of that photocopy.

Lerma does not dispute that Hubbard followed the appropriate procedures in obtaining the maximum copyright protection of his original works and that these same Works have now been produced in the G-Series Exhibits with the appropriate validating documentation. Nor does he dispute that RTC properly owns the copyright interest in these Works.

The Idea/Expression Dichotomy

Lerma launches a collateral attack on the appropriateness of the copyright. Distinguishing between idea and expression, Lerma argues that material contained in the Works is "uncopyrightable." Copyright law promotes the advancement of human knowledge and thought by providing limited legal (and therefore economic) protection to an author's original expression. The author's temporary monopoly, however, does not include the ideas contained within his work. As stated by the Third Circuit, "the purpose of copyright law is to create the most efficient and productive balance between protection (incentive) and dissemination of information, to promote learning, culture and development." *Whelan Associates v. Jaslow Dental Laboratory*, 797 F.2d 1222, 1235 (3rd Cir. 1986). These intentions have spawned the idea/expression dichotomy in copyright law, protecting the latter while still permitting access to the former. "The [Copyright] Act is thus able to protect authors without impeding the public's access to that information which gives meaning to our society's highly valued freedom of expression." Harper & Row

Publishers, Inc. v. Nation Enterprises, 723 F.2d 195, 202 (2nd Cir. 1983).

***3** This idea/expression distinction is codified under 17 U.S.C. §102(b) which states:

In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

Courts have therefore held that wherever an author's expression of an idea is closely intertwined with the idea itself, the expression has "merged" with the idea and is therefore uncopyrightable. Under this "merger doctrine," where the author's ideas and procedures can be properly expressed in so few ways that "protection of the expression would effectively accord protection to the idea itself," *Kregos v. Associated Press*, 937 F.2d 700, 705 (2nd Cir. 1991), courts have found the expression not copyrightable. Copyrighting the expression in these instances would effectively prohibit discussion and analysis of the idea itself and grant the owner a monopoly on all uses of the very concept.

Lerma argues that this merger doctrine applies and that RTC's claim of copyright protection is therefore invalid. He also argues that Hubbard describes the OT Documents as primarily factual, and he insists that their contents must be followed exactly as written. Under the merger doctrine, even if Hubbard had followed all procedural requirements, the Works would still be uncopyrightable if protecting the expression would effectively grant a monopoly on the idea itself.

Despite this argument, the Court finds that merger of idea and expression has not occurred in this case. The ideas and concepts of the Scientology religion can be discussed independently of the OT documents. This has been amply demonstrated in the voluminous record accompanying the case and in all parties' numerous briefs. Indeed, theological musings on the sources of (and remedies for) spiritual

harm have dominated discussion about religion for centuries. Whether achieved through animal spirits, witches, demons, curses, Satan, angels, or "body thetans," spiritual healing is clearly not a concept inherently tied to the OT Documents.

To the extent that the OT Documents supply a technique or "process" for achieving spiritual well-being, their copyright arguably violates a strictly literal reading of §102(b). However, as RTC has argued, virtually all works convey to some extent ideas and processes that are uncopyrightable. See *Hr'g*, January 19, 1996, at 23 et seq. While such creations may contain "procedure[s], process[es], [or] system[s]", 17 U.S.C.A. §102(b), they are not thereby rendered de facto uncopyrightable. As an example, RTC cites programs which essentially describe a "process" but are nonetheless copyrightable. Other examples include cookbooks and automobile mechanics' repair manuals. Each of these documents purports to describe a precise method for achieving a desired end, whether it be the creation of a spinach souffle or the rebuilding of a defective carburetor. Hubbard's instructional directions for spiritual healing are no less-deserving of protection than the admittedly copyrightable "recipe" in a cookbook or copyrightable "repair steps" in a maintenance manual.

***4** Lerma attempts to distinguish the Works from these examples because the Works require specific, precise repetition of the exact text. While a recipe, repair instructions, or a computer program may permit some variation, Hubbard claims that the Works provide the only correct method for reaching complete spiritual health. If not followed exactly, the process will fail. However, literary works such as a poem or haiku and musical works such as a symphonic score possess the same quality -- the desired effect cannot be achieved without precise repetition. This does not make poems, haikus, and musical scores uncopyrightable, and it should likewise not preclude copyrightability of the Works. Denying copyright protection to RTC on this basis would rapidly destroy the protection and incentive for the likes of Wagner and Brahms

-- an outcome that is most certainly contrary to the goals of copyright law.

The Court, therefore, finds the merger clause inapplicable to the Works.

Fair Use Defense

Lerma freely admits that he copied portions of the Works by downloading or scanning them into his computer and by posting segments of this material to the Internet. He argues that even if the works are copyrightable and copyrighted, this copying was lawful because it was "fair use."

In determining whether the use of a copyrighted work constitutes fair use, the Court must consider four factors:

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

17 U.S.C. §107. These four statutory factors may not be "treated in isolation, one from another. All are to be explored, and the results weighed together, in light of the purposes of copyright." *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 (1994).

Lerma urges us, when conducting the fair use analysis, to evaluate his actions in the special context of modern communication on the Internet. He describes the unique characteristics of computer interaction and argues for special treatment under copyright law. While the Internet does present a truly revolutionary advance, neither Congress nor the courts have afforded it unique status under the fair use standard of §107. The law of copyright has evolved with technological change, with each new technological advancement creating complicated questions of copyright interpretation and application. Nevertheless, the new technologies -- from television, to video cassette recorders, to

digitized transmissions -- have been made to fit within the overall scheme of copyright law and to serve the ends which copyright was intended to promote. See *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). The Internet is no exception, and postings on it must be judged in reference to the already flexible considerations which fair use affords.

***5 Purpose and Character of the Use:** The first fair use factor is the purpose and character of the use made by the alleged infringer. 17 U.S.C. § 107(1). Lerma posits that his use of the Works falls within several of the classic fair use categories listed in the first paragraph of §107, namely, that his copying and posting of the Works constitutes "criticism", "comment", "news reporting", and "scholarship." "[T]here is a strong presumption that factor one favors the defendant if an allegedly infringing work fits the description of uses described in section 107." *Wright v. Warner Books, Inc.*, 953 F.2d 731, 736 (2nd Cir. 1991).

Lerma argues that his Internet posting of the Fishman Declaration originated from publication of information in a California court record that was open to the public and which the court refused to seal. Lerma asserts that he merely gathered that information like a news reporter and then published it on the Internet to unveil for the Internet community the "foibles" of Scientology in the same spirit of the modern news expose.

This analogy fails. The full record clearly shows that Lerma's motives, unlike those of news reporters, were not neutral and that his postings were not done primarily "for public benefit." *MCA, Inc. v. Wilson*, 677 F.2d 180, 182 (2nd Cir. 1981). When judged in light of the degree of copying and the use to which the infringing material was ultimately put, Lerma stands in a position significantly different from the Washington Post and its employees earlier dismissed from this suit. Even if Lerma were a newspaper reporter, the mere fact that a copyrighted document was in a public court file in no respect destroys its copyright protection.

Lerma also describes himself as a dedicated researcher delving into the theory and scholarship of Scientology. He claims to be performing academic work of a "transformative" nature, providing materials which "add new value to public knowledge and understanding, thereby advancing the goals of copyright as set forth in the Constitution." Opp'n Br. at 24. That argument does not justify the wholesale copying and republication of copyrighted material. The degree of copying by Lerma, combined with the absence of commentary on most of his Internet postings, is inconsistent with the scholarship exception. Even assuming, *arguendo*, that Lerma's copying to his hard drive was done solely in the name of academic research, this does not end the fair use analysis. Such uses are only "presumptively" permissible; there is a limit to the extent of reproduction that can be undertaken even by the bona-fide researcher. See *American Geophysical Union v. Texaco, Inc.*, 802 F.Supp. 1, 17 (S.D.N.Y. 1992), *aff'd.*, 60 F.3d 913 (2nd Cir. 1994)(archival photocopying of scientific journals for internal use by for-profit research laboratory and is not fair use) See also *Marcus v. Rowley*, 695 F.2d 1171, 1176 (9th Cir. 1983) ("[W] holesale copying of copyrighted material precludes application of the fair use doctrine."), 3 Nimmer § 13.05[A] [3] (1996) ("[Generally] it may not constitute a fair use if the entire work is reproduced").

***6** Lerma argues that his "research" conducted via downloads from newsgroups on the Internet provides a particularly strong argument for fair use. Because newsgroup output is by its nature ephemeral, Lerma asserts that saving such postings for later review is indistinguishable from the temporary storage on a VCR tape that was upheld by the Supreme Court in *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417 (1984). Lerma's analogy fails because the "time-shifting" approved in *Sony* concerned the reproduction of television programs that were implicitly licensed at no charge to the viewer who then copied them for purposes of convenience. These critical factors are absent in the instant case. Lerma is not licensed to view or copy the Works, and his reproduction

of the Works on his disc served purposes beyond convenience. The proper analogy of Lerma to *Sony* would be if the *Sony* defendant obtained an unauthorized copy of a television movie from a premium cable channel and then re-broadcast that movie on a public access channel, something that would be clearly prohibited.

It may be true that Lerma's intent in posting the Works was not "commercial" in the traditional sense. He was not in direct competition with the church, and he did not place a surcharge on, or receive any other "private commercial gain" from, the information contained within the Works. Under the fair use doctrine, commercial use of an allegedly infringing work is disfavored whereas noncommercial use is not. See *Sony Corp.*, 464 U.S. at 449. Nonetheless, while there is no evidence that Lerma has profited directly from the postings, this factor alone is not dispositive of the fair use issue.

"[T]hough it is a significant factor, whether the profit element of the fair use calculus affects the ultimate determination of whether there is fair use depends on the totality of the factors considered; it is not itself controlling." *Rogers v. Koons*, 960 F.2d 301, 309 (2nd Cir. 1992). In viewing the totality of factors discussed above, the Court finds that the noncommercial character of Lerma's copying and posting does not outweigh Lerma's non-neutral and non-scholarly motives in publishing the Works.

Nature of the Copyrighted Work: The second factor for consideration under the fair use analysis is the nature of the copyrighted work. 17 U.S.C.A. § 107(2). "This factor calls for recognition that some works are closer to the core of intended protection than others, with the consequence that fair use is more difficult to establish when the former works are copied." *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 586 (1994).

In opposing RTC's Motion for Summary Judgment, Lerma relies upon two aspects of the Works which favor his position: 1) the

factual vs. the creative nature of the Works, and 2) their publication status.

The fair use defense is broader with respect to factual works than to creative or literary works. "The law generally recognizes a greater need to disseminate factual works than works of fiction or fantasy." *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 563 (1985). Hubbard's works are difficult to classify in this respect and courts dealing with this issue have differed in their conclusion. As the Second Circuit stated in *New Era Publications Int'l v. Carol Publishing Group*, 904 F.2d 152, 158 (2nd Cir. 1989), cert. denied, 493 U.S. 1094 (1990), "reasonable people can disagree over how to classify Hubbard's works." In the case at bar, however, RTC has characterized the Works as training materials, stressing their utility over their creativity. The Court has previously resolved this question by holding that the Works are "intended to be informational rather than creative" and that a broader fair use approach is therefore appropriate in this regard. *Religious Technology Center v. Lerma*, 908 F.Supp. 1362, 1367 (E.D.Va. 1995).

***7** Lerma's second argument regarding the nature of the copyrighted Works pertains to their publication status. Courts have consistently found that "the scope of fair use is narrower with respect to unpublished works." *New Era Publications v. Carol Publishing Group*, 904 F.2d 152, 157 (2nd Cir. 1990) (quoting *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 564 (1985)). The Works in question clearly have not been "published." RTC has not released these materials to the public and does not plan to release them. Nevertheless, Lerma insists that for purposes of a fair use analysis the term "publication" means "whether the work has been widely disseminated or is widely available, regardless of technical 'publication'." *Opp'n Br.* at 41 (citing *Harper & Row*, 471 U.S. at 555) (emphasis in original). Because much of the materials which he copied and posted to the Internet were already available in an open court file or on the Internet, Lerma asserts that they are

deserving of less protection because he has not usurped RTC's right to first publication.

Lerma's reliance upon the argument is not convincing. Although *Harper & Row* weighs the "de facto publication ... or dissemination" of a work in determining whether another's utilization of the material constitutes fair use, this only applies where the author has given "implied consent" through such action as performance or dissemination. 471 U.S. at 551. In those circumstances, the author has made the work publicly available and has implicitly invoked his right to first publication. The copyright owner is denied this opportunity when actions of a third party usurp the right to first publication, as happened both in *Harper & Row* and in this case. Posting without the owner's consent cannot constitute a "first publication" under fair use principles.

Lerma also argues that the unpublished status of the Works is entitled to even less weight because the RTC never intends to publish them. He claims that the "central purpose of distinguishing between disseminated and undissemminated works is to preserve for the author the commercial value of the right to first publication." *Opp'n Br.* at 44. Relying on *Harper v. Row*, Lerma suggests that where a copyright owner intends never to exploit the right of first publication, the need to protect that right diminishes and the scope of fair use correspondingly expands.

Lerma misreads his authorities on this point. *Harper & Row* clearly recognizes that "[t]he right of first publication encompasses [also] the choice whether to publish at all." 471 U.S. at 564. See also *Salinger v. Random House, Inc.*, 811 F.2d 90, 98 (2nd Cir. 1987) (Potential harm to value of plaintiff's works "is not lessened by the fact that their author has disavowed any intention to publish them during his lifetime ... [h]e is entitled to protect his opportunity to sell his letters"). This approach is not illogical.

***8** Thus, while the factual nature of the Works weighs in Lerma's favor, the unpublished nature of the Works and RTC's intention to

keep the Works unpublished weigh against him. As held in *Harper & Row*, 471 U.S. at 564, "[t]he fact that a work is unpublished is a critical element of its 'nature.'" Unpublished works "normally enjoy complete protection against copying any protected expression." *Salinger v. Random House, Inc.*, 811 F.2d 90, 97 (2nd Cir. 1987). On balance, the second fair use factor tips in favor of RTC.

Amount and Substantiality of Copying: The third factor addresses the amount and substantiality of the portion copied by the defendant in relation to the copyrighted work as a whole. 17 U.S.C. §107(3). "There are no absolute rules as to how much of a copyrighted work may be copied and still be considered a fair use." *Maxtone-Graham v. Burtchaell*, 803 F.2d 1253, 1263 (2nd Cir. 1986). This factor has both quantitative and qualitative components, so that courts have found a use to be unfair where the quoted materials formed a substantial percentage of the copyrighted work or where the quoted material was "essentially the heart of" the copyrighted work. *New Era Publications v. Carol Publishing Group*, 904 F.2d 152, 158 (2nd Cir. 1990)(citations omitted).

The parties dispute whether the segments excerpted by Lerma represent "the heart of" the Works under the qualitative component. The Court is unable to evaluate this component because many of the copyrighted materials are incomprehensible. However, because the quantitative analysis weighs so overwhelmingly in RTC's favor, it is not necessary to make this qualitative evaluation.

The 33 exhibits in RTC's G-Series Exhibits indicate extensive copying and posting. A majority of these 33 exhibits contain verbatim copying, as if Lerma obtained the copyrighted materials and summarily transferred them into cyberspace. In many cases, Lerma uploaded a complete, self-contained OT Document with a recognizable beginning, body, and end. Over two-thirds of the G-Series Exhibits represent virtually a total reproduction of the work on file at the Copyright Office.

The wholesale copying of copyrighted material often precludes the application of the fair use doctrine. *Marcus v. Rowley*, 695 F.2d 1171, 1176 (9th Cir. 1983)(citations omitted). Such blatant reproduction has been prohibited even in the context of educational instruction. See, e.g., *Wihtol v. Crow*, 309 F.2d 777, 780 (8th Cir. 1962) ("whatever may be the breadth of the doctrine of 'fair use', it is not conceivable to us that the copying of all, or substantially all, of a copyrighted song can be held to be a 'fair use' merely because the infringer had no intent to infringe"), *Encyclopedia Britannica Educational Corp. v. Crooks*, 447 F.Supp. 243 (W.D.N.Y. 1978) (although defendants were involved in noncommercial educational copying of films to promote science and education, the taping of entire copyrighted films was too excessive for the fair use defense to apply).

***9** Lerma opposes RTC's percentage calculations by arguing a different interpretation of what represents the "whole" copyrighted work as defined under §107(3). RTC has registered the OT Documents with the copyright office in batches as part of a series. Lerma argues that the "whole" work refers to the entire series listed on a registration certificate, while RTC argues that the term refers to each component of these copyrighted series. Thus, where RTC registered on one form the OT III collection of documents A, B, C, D, & E, Lerma asserts that all five documents constitute the "whole copyrighted work" for purposes of comparison, whereas RTC maintains that each subpart constitutes a "whole copyrighted work."

Whether or not the "whole copyrighted work" is viewed as the entire collection (as Lerma prefers) or as the individual works (as RTC prefers) is critical to the fair use assessment, and indeed may be the determining factor. Under RTC's interpretation, if Lerma copied document A in toto he performed a 100% copy. Under Lerma's interpretation, the same action amounts to copying only a small portion of a larger work. In this way Lerma maintains that he reproduced only 13 of 213 pages from OT II, 25 of 326 pages of OT III, 12 of 30

pages from "the Power," and 10 of 350 pages of the NOT's. Opp'n Br. at 47.

RTC's approach is supported by the Code of Federal Regulations, which states *inter alia* that the following shall be considered a "single work":

In the case of unpublished works: all copyrightable elements that are otherwise recognizable as self-contained works, and are combined in a single unpublished "collection."

37 C.F.R. §202.3(b)(3)(B). That subsection proceeds to list the factors to be used in determining whether a set of works can be considered a "collection," including:

- 1) are the elements assembled in an orderly form;
- 2) do they bear a single title identifying them as a whole
- 3) is the copyright claimant the same in each of the elements and in the collection as a whole; and
- 4) are the elements by the same author.

Id. When judged by these factors, we find that the Works at issue in this case are combined in "collections" and that each subpart must be considered a "single work" for the purposes of fair use analysis.

Courts have followed this approach and found that components of a "collection" constitute single works for fair use purposes. In *Szabo v. Errison*, 68 F.3d 940 (5th Cir. 1995), the court granted copyright protection to the component elements of a collection of recordings despite the fact that the elements were not individually listed on the copyright registration. RTC's claim is even stronger because it undertook an individualized listing. See also *Hustler Magazine v. Moral Majority*, 796 F.2d 1148, 1154 (9th Cir. 1986) ("[e]ach component of a composite work is capable of individual copyright protection and need not bear a separate copyright notice"); *American Geophysical Union v. Texaco*, 802 F.Supp. 1, 17 (S.D.N.Y. 1992)(each article within a copyrighted journal constituted a single work for fair use purposes).

***10** Although Lerma did not post the entirety of OT II, OT III, NOT's, or Power, he did post

the entirety of certain discrete subparts of these series. Under the Code of Federal Regulations and under case law, these subparts constitute single works and are the benchmark against which to compare Lerma's actions. Following this analysis, Lerma's infringement is clear.

As a final defense under this fair use factor, Lerma urges this Court to consider the Internet postings in their unique newsgroup context. Rather than viewing each individual posting in isolation, Lerma contends that each posting must be considered within the context of the ongoing dialogue he has conducted on the newsgroup. The qualitative analysis would then include the multiple communications posted before and after the alleged infringements, communications which are likely to contain greater commentary and analysis than the postings at issue.

This approach would permit a would-be infringer to participate in blatant theft of a copyright yet still escape punishment via the subsequent posting of subsequent commentary -- a commentary that may not always be seen in tandem with the infringing work. Under this argument "cyberbandits" could easily cover their tracks.

The third fair use factor therefore weighs heavily against Lerma. His direct copying and posting of certain "single works" registered within collections, almost totally devoid of discussion and commentary, nearly are sufficient to preclude a fair use defense.

Effect on the Market of the Copyrighted Work: The fourth and final part of the fair use defense considers the effect which the allegedly infringing use had on the potential market for, or value of, the copyrighted work. 17 U.S.C.A. § 107(4).

Courts have frequently identified this as the most important element of a fair use analysis. See, e.g., *Harper & Row*, 471 U.S. at 566; *New Era Publications v. Carol Pub. Group*, 904 F.2d 152, 159 (2nd Cir. 1990). However, the 1967 House Report cautions that it "must almost always be judged in conjunction with

the other three criteria." *Marcus v. Rowley*, 695 F.2d 1171, 1177 (9th Cir. 1983)(citing H.R. Rep. No. 83, 90th Cong., 1st Sess. 33, 35 (1967)). Lerma correctly argues that any economic harm befalling the Church of Scientology as a result of legitimate commentary is permissible under the fair use doctrine. The Supreme Court found in *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. at 592 (1994), that we must "distinguish between '[b]iting criticism [that merely] suppresses demand [and] copyright infringement[, which] usurps it'" (brackets in original)(citation omitted). It is extremely difficult to address the issue of market impact in this case because it is unlikely that excerpts of the Works posted by Lerma thus far, although substantial, would provide a sufficient basis for would-be parishioners to defect from Scientology. However, RTC's inability to prove a decrease in Scientology enrollment does not justify Lerma's actions. "The mere absence of measurable pecuniary damage does not require a finding of fair use." *Marcus v. Rowley*, 695 F.2d 1171, 1177 (9th Cir. 1983).

***11** The potential for economic harm to RTC must also be considered. "[T]o negate fair use one need only show that if the 'challenged use should become widespread, it would adversely affect the potential market for the copyrighted work.'" *Harper & Row*, 471 U.S. at 568 (citing *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. at 451). RTC correctly notes that a substantial expansion of Lerma's current activities presents an identifiable risk of harming RTC. In *Bridge Publication, Inc. v. Vien*, 827 F.Supp. 629, 633 (S.D.Cal. 1993), the court found such a risk in another case involving the Church of Scientology. In *Vien*, unpermitted copying of RTC's literary works and sound recordings was held to violate copyright law in part because the copies fulfilled the demand for the original works and diminished or prejudiced their potential sale. *Id.* at 636. The infringer in *Vien* actually competed with the Church of Scientology. RTC argues that Lerma poses some competitive risk to RTC, supports this argument with a communication which states that the "[p]ublic are [sic]

encouraged to use a workable technology ... The complete works of all clearing practitioners are made available to all with desire and courage to apply them. Franchises flourish ..." Ex. 8 to Fifth Lerma Decl.

Overall, however, RTC in this case are far too speculative. RTC is unable to present specific, identifiable evidence of the effect that Lerma's postings have had or could have on the Church of Scientology, and cannot establish that Lerma is operating as a direct competitor of the church. Thus, the Court finds that the fourth fair-use factor tips slightly in Lerma's favor.

Fair Use Summary: Based upon the four statutory factors listed in §107 for evaluating the fair use defense, the Court finds that Lerma's copying and posting of the Works does not constitute fair use.

Misuse of Copyright

Lerma next argues that even if his copying and publications on the Internet are not protected by the fair use defense, this Court should nevertheless grant summary judgment in his favor because RTC has misused its copyright. The misuse of copyright doctrine is an affirmative defense to copyright infringement. Its goal is to prevent the owner of a copyright from improperly utilizing the legal rights granted to it under the copyright laws. Lerma is correct that "[a] successful defense of misuse of copyright bars a culpable plaintiff from prevailing on an action for infringement of the misused copyright." *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 972 (4th Cir. 1990).

Lerma argues two bases for his misuse claim. First, he questions the bona fides of RTC's copyright infringement law suit, arguing that RTC's true objective was the impoundment of Lerma's computer-related materials. Lerma maintains that RTC exercised its options under the Copyright Act as a mere pretense for gaining access to his computer files, thereby allowing them to "romp[] through" his personal materials and investigate and intimidate other RTC critics.

Second, Lerma alleges that RTC utilizes its copyrights and the litigation process generally "as a means to harass, burden, and punish Mr. Lerma for his criticism of Scientology."

***12** Even assuming arguendo that such motivations were part of RTC's litigation strategy, that does not constitute misuse of copyright. Misuse of copyright applies where the copyright owner tries to extend the copyright beyond its intended reach, thereby augmenting the physical scope of copyright protection. It typically arises in situations where it is alleged that the copyright owner projected his unique rights in a work onto other, unrelated products or services. See e.g., *Lasercomb*, 911 F.2d 970 (4th Cir. 1990) (defense of misuse upheld against plaintiff who attempted to extend control of its lawfully copyrighted material through the use of a 99-year licensing agreement); *Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680 (4th Cir. 1992) (alleged misuse of copyright by premising availability of computer programs on defendant's use of plaintiff's computer repair services); *Electronic Data Systems v. Computer Associates*, 802 F.Supp. 1463 (N.D.Tex. 1992) (alleged misuse by tying the purchase of copyrighted software to other products); *United Tel. Co. of Mo. v. Johnson Pub. Co., Inc.*, 855 F.2d 604 (8th Cir. 1988) (alleged misuse by requiring that plaintiff purchase entire customer list rather than the copyrighted subset requested by plaintiff). As these cases demonstrate, misuse is somewhat analogous to the prohibition against "tying" in patent law. Because copyright is intended to protect only those works containing the requisite indicia of creativity and originality, casting the shadow of its virtual monopoly onto other unprotected works would constitute a "misuse."

The defense of misuse of copyright has also arisen in circumstances where the plaintiff attempted to restrain defendant from using material over which the plaintiff itself had no rights, *Qad. Inc. v. ALN Associates, Inc.*, 770 F.Supp. 1261 (N.D.Ill. 1991), where the plaintiff distributed the copyright in an allegedly discriminatory manner, *Supermarket of Homes, Inc. v. San Fernando Valley Board of*

Realtors, 786 F.2d 1400 (9th Cir. 1986), or where the copyright owner refused to supply a list of copyrighted songs as requested by the defendant, *Tempo Music, Inc. v. Myers*, 407 F.2d 503 (4th Cir. 1969). In each of these cases, the misuse concerns the wrongful use of the copyright powers themselves in ways violative of the Constitution or public policy. In other words, the proponent of the misuse defense must effectively argue that the plaintiff is asserting its copyrights in an improper or offensive manner not intended by the copyright laws. Such a misuse is quite distinct from the legitimate invocation of one's copyright even though prompted by ulterior motives. To misuse a copyright, therefore, the copyright owner must use the copyright in an impermissible way by "extend[ing] his] monopoly or otherwise violat[ing] the public policy underlying copyright law." *National Cable Television v. Broadcast Music, Inc.*, 772 F.Supp. 614, 652 (D.D.C. 1991).

***13** Lerma fails to make such a showing. This is not a case where RTC attempted to assert copyrights it did not own, or where RTC attempted to tie its copyrights to other products. Lerma's infringement is unmistakable, and RTC's opposition is sound.

Having determined that Lerma has violated RTC's rights to the Works, and having rejected the defenses of fair use and misuse, the Court finds that Lerma has infringed RTC's copyright interest in the Works by posting the G-Series Exhibits.

Damages and Remedies

The Court will now preliminarily address the appropriate remedy for Lerma's infringements. The basis for monetary damages in an infringement action is set forth in 17 U.S.C. § 504. That section enables a copyright owner to seek either "actual damages and any additional profits of the infringer" or "statutory damages." 17 U.S.C. §504(a).

Actual damages and profits are not readily ascertainable in this case because of a number of factors, including that Lerma was

not selling the infringed material, that he is not a direct competitor of the Church of Scientology, and that RTC is unable to show lost profits or fewer parishioners with any degree of certainty. The Court need not determine actual damages, however, because RTC has indicated its intention to seek only the "statutory minimum damages afforded by the Copyright Act." [FN2]

FN2. See Plaintiff RTC's Motion for Summary Judgment for Copyright Infringement Against Defendant Lerma at 46, n. 40.

In determining a final statutory award, the Court must answer three questions: [FN3] 1) to what degree do the relevant postings (from the G-Series Exhibits) infringe RTC's copyrights; 2) how many acts of infringement occurred and 3) to what extent was the infringement willful.

FN3. The Court initially indicated to the parties that it would entertain supplemental briefing on all damages and remedies issues following the issuance of this Memorandum Opinion. Upon further analysis, the Court no longer requires additional argument regarding statutory damages. Supplemental briefs pertaining solely to the award of attorney's fees shall be submitted within 11 days of this Memorandum Opinion.

To What Extent do the Works Infringe -- The Court has reviewed in detail the allegedly infringing Works submitted by RTC in conjunction with its summary judgment motion. Without exception, each of the 33 binders tendered as the G- Series Exhibits demonstrates infringement of the RTC's copyrights in the documents at issue.

None of the exhibits can be considered fair use under the analysis outlined above. Lerma's copies typically consist of verbatim copying wholly devoid of criticism or other commentary. Lerma often reproduces the exact text of the copyrighted work so that the

two versions are virtually indistinguishable. Some indicia of his direct copying include identical use of titles, subheadings, section markers, quotation marks, capitalization, hyphenation and underlining.

In addition to these grammatical similarities, Lerma's postings often reveal identical numbering and lettering schemes to separate the text. See, e.g., RTC Exs. G-17 & G-18. At times the copying goes so far as to reproduce the actual visual layout of the copyrighted text, so that the division of characters and their placement into similar columns matches that of the copyrighted Work. See, e.g., RTC Ex. G-18. Many exhibits include Lerma's blatant reproduction of L. Ron Hubbard's authorship line. See, e.g., RTC's Exs. G-26, G-27, & G-28)

***14** Several of the disputed Works include hand-drawn illustrations which are not produced in Lerma's copies. See, e.g., RTC Exs. G-13, G-21 & G-22. These illustrations are omitted from Lerma's versions of the document, omissions which make his infringement even more glaring because much of Lerma's verbatim text refers to the illustrations that are absent. Other omissions which the Court finds particularly troubling occur in verbatim copies of certain RTC "bulletins" where Lerma appears to have transferred everything except the "Confidential" heading and the copyright markers. See, e.g., RTC Exs. G-26 through G-30.

The amount and substantiality of the relevant sections of the RTC and Lerma documents also support a finding of infringement. In the vast majority of exhibits, 100% of Lerma's document is simply a direct copy of 100% of RTC's copyrighted document. See, e.g., RTC Exs. G-1 through G-13, G-17 through G-19, G-26 through G-30, & G-32 through G-33. When there are slight variances, they appeared to be typographical errors or insignificant word substitutions. In a few cases, the excerpted section of the copyrighted work was significantly less than a total copy, but that section nonetheless constituted the entirety of Lerma's reproduction. See, e.g., RTC Exs. G-

14, G-15, G-16, & G-20. If 60% of an RTC copyrighted document is copied to form 100% of a Lerma document, without any change or commentary whatsoever, this still does not constitute fair use.

Number of Infringing Acts -- Although each of the 33 binders contained in RTC's G-Series Exhibits are infringing, this does not necessarily indicate 33 acts of infringement. The Copyright Act clearly states that for purposes of calculating statutory damages for copyright infringement, "all the parts of a compilation or derivative work constitute one work." 17 U.S.C. §504 (1996).

Each of the 33 exhibits in this case arise from one of five different compilations filed with the Copyright Office of the United States. Exhibits G-1 through G-15 arise from the copyright registration entitled "OT III SERIES" (Copyright Registration Number TXu 290-496, Jan. 30, 1987); Exhibits G-16 through G-25 arise from the copyright registration entitled "OT II SERIES" (Copyright Registration Number TXu 303-388, September 17, 1987); Exhibits G-26 through G-29 arise from the copyright registration entitled "NED FOR OTS SERIES" (Copyright Registration Number TXu 257-326, November 10, 1986; Exhibit G-30 arises from the copyright entitled "HCO BULLETIN OF 16 NOVEMBER 1981 THE SUNSHINE RUNDOWN, INSTRUCTION" (Copyright Registration Number TXu 303-384, September 1, 1987); and Exhibits G-31 through G-33 arise from the copyright registration entitled "POWER SERIES" (Copyright Registration Number TXu 303-386, September 1, 1987).

If multiple but distinct works are collected and filed together at the Copyright Office under the same registration, they are to be considered a single work for the purposes of damages. This principle is demonstrated in *Stokes Seeds Ltd. v. Geo. W. Park Seed Co., Inc.*, 783 F.Supp 104 (W.D.N.Y. 1991), where each copying of multiple photographs appearing in a seed company's seedling reference book did not constitute a distinct infringing transaction. Instead, the court viewed the work as a compilation constituting "one work"

and therefore "justifying a single award of statutory damages." *Id.* at p. 107. For the purpose of the damage calculation, the infringing documents at issue in this summary judgment motion similarly constitute five works, not thirty-three.

***15** Because statutory damages are to be calculated according to the number of works infringed and not the number of infringements, *Walt Disney Co. v. Powell*, 897 F.2d 565, 569 (D.C.Cir. 1990), the Court will find only five instances of infringement for the purposes of calculating damages.

Willfulness --

This court declines to impose increased statutory damages for a willful violation. "An infringement is 'willful' if the infringer knows that its conduct is an infringement or if the infringer has acted in reckless disregard of the copyright owner's right." *Video Views, Inc. v. Studio 21 Ltd.*, 925 F.2d 1010, 1020 (7th Cir. 1991), cert denied, 502 U.S. 861 (1991), cited in *Superior Form Builders, Inc. v. Chase Taxidermy Supply Co.*, 74 F.3d 488, 496 (4th Cir. 1988). See also *Microsoft Corp. v. Grey Computer*, 910 F.Supp. 1077 (D.Md. 1995).

Lerma's actions do not match those of infringers in cases where courts have found willful violations. In determining whether an infringement was willful, the court in *Superior Form Builders* considered the infringer's history of infringement, noting that "[t]he record supports the conclusion that Dan Chase Taxidermy became the largest taxidermy supplier in the country by consistently and deliberately copying competitors' forms in disregard of the copyright laws." 74 F.3d at 497. The defendant also falsified a copyright on his product, a mannequin, and was previously sued at least three times for copyright infringement. 74 F.3d at 497. Finally, the court stressed that Chase had represented in his product catalogs that his products were copyrighted and had therefore taken an inconsistent position at trial that the mannequins were not copyrightable. In contrast, Lerma has no history of copyright

infringement and he made no representation that he owned the copyright to the Works.

Damages Calculated -- For each instance of non-willful infringement, the Copyright Act enables the Court to award statutory damages of "not less than \$500 or more than \$20,000 as the court consider just." 17 U.S.C. § 504(c)(1) (1996). In light of the five instances of infringement which occurred in this case, because the penalty is being assessed against an individual of limited means who has already expended considerable sums in this litigation, and because RTC has indicated its express desire to seek only the statutory minimum, provided its copyrights are protected, [FN4] the Court intends to award the statutory minimum of \$500 for each infringement, for a total statutory award of \$2,500 in favor of RTC and against defendant Lerma, unless the RTC convinces the Court to do otherwise.

FN4. See Plaintiff RTC's Motion for Summary Judgment for Copyright Infringement Against Defendant Lerma, p. 46, n. 40.

Conclusion

For the above-stated reasons, summary judgment on the copyright claim is found in favor of plaintiff, RTC, against defendant Lerma.

The Clerk is directed to forward copies of this Memorandum Opinion to counsel of record and to defendant, pro se.

ORDER

On January 19, 1996, this Court granted summary judgment to the plaintiff on its copyright infringement claim. That ruling was made orally, in open court, with the Court advising the parties that it would explain its reasons in a written opinion and thereafter give the parties an opportunity to address remedies. The time in which to appeal the summary judgment ruling was stayed until the written opinion and damages decisions were issued. The written opinion has now been

issued, thus the remaining matter to be addressed is remedies.

***16** The Court is hereby advising the parties, consistent with what it has previously stated, that it does not intend to impose heavy financial damages on the defendant. Unless RTC convinces the Court to the contrary, it will not make a finding of willful infringement in this case. Moreover, unless convinced to the contrary, for purposes of the damage calculation the Court intends to find five instances of violation, specifically one violation for the illegal copying of each of the five works discussed in the Memorandum Opinion. Because RTC has previously indicated it seeks only the statutory minimum damages provided its copyrights are respected, these conclusions would lead to total monetary damages of \$2,500.

Defendant is apparently suffering financial hardship and is no longer represented by counsel. Therefore, unless convinced to the contrary, the Court does not plan to award attorneys' fees or the costs of litigation against the defendant.

Lastly, RTC seeks injunctive relief in this action, to which the Court believes defendant does not object. The parties should try to agree to the language of such injunction.

In order to resolve these final issues, it is hereby

ORDERED that RTC file by October 21, 1996, any position on the damages and injunction issues. Defendant will have fifteen (15) days to respond to RTC.

74 F.3d 1512 WITHDRAWN
 64 USLW 2515, 1995 Copr.L.Dec. P 27,496,
 106 Ed. Law Rep. 1008
(Cite as: 1996 WL 54741 (6th Cir.(Mich.)))

**PRINCETON UNIVERSITY PRESS,
 MacMillan, Inc., and St. Martin's Press,
 Inc.,
 Plaintiffs-Appellees,
 v.
 MICHIGAN DOCUMENT SERVICES, INC.,
 and James M. Smith,
 Defendants-Appellants.**

No. 94-1778.

United States Court of Appeals,
 Sixth Circuit.

Decided Feb. 12, 1996.

RYAN, J., delivered the opinion of the court, in which MCKAY, J., joined. NELSON, J. (pp. 1524-28), delivered a separate opinion concurring in part and dissenting in part.

RYAN, Circuit Judge.

*1 The plaintiffs, Princeton University Press, MacMillan, Inc., and St. Martin's Press, Inc., brought a copyright infringement action against the defendants, Michigan Document Services, Inc. and James M. Smith, president of MDS. The suit alleges that the defendants infringed copyrights held by the plaintiffs when MDS made multiple copies of excerpts from various materials provided by University of Michigan professors, compiled these copies into "coursepacks," and sold the coursepacks to students for a profit. The district court granted summary judgment to the plaintiffs, found that the defendants' infringement was "willful," and issued an injunction against the defendants. The defendants appeal the district court's decision, defending their copying practices primarily on the ground that the coursepacks are a "fair use" of the copyrighted works and therefore not an infringement. We agree with the defendants that their use is a "fair use" as defined in the

Copyright Act of 1976, 17 U.S.C. § 107, and reverse.

I.

Michigan Document Services is a so-called "copy shop" and provides general photoreproduction services to the public. Some of its profits are derived from the sale of "coursepacks" to professors and students. Coursepacks are compilations of various copyrighted and uncopyrighted materials, which may include journal articles, newspaper articles, course notes or syllabi, sample test questions, and excerpts from books. Professors select the contents of the coursepacks and deliver the selected materials to MDS with an estimate of the number of students expected in the course. The professors assign the material to students enrolled in a particular class and inform these students that they may purchase the required materials in coursepack form at MDS if they wish. In the alternative, students are free to make copies of the excerpted material at the library themselves, to copy the material from other students, or to purchase the original works. MDS prepares a master copy of all the materials obtained from the professor, creates a table of contents, identifies excerpts by author and name of the underlying work, numbers the pages, and then binds the copied excerpts together. These coursepacks are sold only to students for use in a particular course. They are not sold to the general public; any copies that are not purchased are simply discarded. The coursepacks are priced on a per-page basis, regardless of the contents of the page; that is, the fee for a page reproducing copyrighted materials is the same as the fee for a blank page.

We are specifically concerned in this case with six excerpts extracted from works to which plaintiffs hold the copyrights. Following the direction of several professors who brought the excerpts to the defendants for copying, MDS assembled the excerpts, along with other materials not at issue in this suit, into three coursepacks.--MDS copied 95 pages, or 30%, of Farewell to the Party of

Lincoln: Black Politics in the Age of FDR, by Nancy J. Weiss; 45 pages, or 18%, of Public Opinion, by Walter Lippmann; 77 pages, or 18%, of The Nature of Human Values, by Milton Rokeach; 78 pages, or 16%, of Political Ideology: Why the American Common Man Believes What He Does, by Robert E. Lane; 52 pages, or 8%, of Social Psychology, by Roger Brown; and 17 pages, or 5%, of Where the Domino Fell: America and Vietnam, 1945 to 1990, by James S. Olson and Randy Roberts. Each of the requesting professors signed a declaration that he does not request copies of excerpts where he would otherwise have assigned the entire work to his students. MDS sold the coursepacks containing these six excerpts to students at the University of Michigan for use in the 1992 winter semester.

***2** Each of the plaintiff publishers operates a department that receives and processes requests for permission to use any of that publisher's copyrighted works. The plaintiff publishers usually charge a fee for allowing others to copy portions of their works and generally share these fees with the authors. Sometimes the publishers grant permission to copy without charge, and other times they deny permission entirely.

MDS did not seek permission to copy any of the six excerpts or pay any royalties or permission fees for the use of the excerpts before selling them to the students. Although only six excerpts are at issue here; the president of MDS estimates that the excerpts at issue are among several thousand such excerpts for which permission to copy was never sought.

II.

The publishers obtained preliminary injunctive relief against MDS in the district court. The publishers and MDS then filed cross motions for summary judgment. In its subsequent order and judgment, the district court granted the publishers' motion for summary judgment as to liability and denied MDS's motions for summary judgment. The district court found that MDS had willfully infringed the publishers'

copyrights, and, pursuant to 17 U.S.C. § 504(c), awarded the publishers statutorily enhanced damages of \$5000 per infringed work, for a total of \$30,000, plus attorney fees. The district court enjoined MDS from "copying any of plaintiffs' existing or future copyrighted works without first obtaining the necessary permission." *Princeton Univ. Press v. Michigan Document Services, Inc.*, 855 F.Supp. 905, 913 (E.D.Mich.1994).

[1] This court determines de novo whether, viewing the evidence in the light most favorable to the party against whom summary judgment has been granted, the moving party has demonstrated that there is no genuine issue of material fact and that it is entitled to judgment as a matter of law. *Fed.R.Civ.P.* 56(c). The question on review of a summary judgment is " 'whether the evidence presents a sufficient disagreement to require submission to a jury or whether it is so one sided that one party must prevail as a matter of law.' " *National Rifle Ass'n v. Handgun Control Fed'n*, 15 F.3d 559, 561 (6th Cir.) (quoting *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 251-52, 106 S.Ct. 2505, 2511-12, 91 L.Ed.2d 202 (1986)), cert. denied, --- U.S. ---, 115 S.Ct. 71, 130 L.Ed.2d 26 (1994).

III.

The publishers allege that MDS's for-profit copying and assembling of excerpts from copyrighted works violates the publishers' exclusive copyrights. The publishers argue that MDS and the publishers compete in the same market. The plaintiffs publish textbooks, anthologies, collections of readings, and other works designed to be useful in the college classroom. The publishers hope that college professors will assign these books and that students will purchase them. In addition to publishing books themselves, the publishers license others, including copy shops like MDS, to use portions of their copyrighted works.

***3** When a professor is dissatisfied with existing published materials, he may designate the readings selected from a number of sources that best suit his

specialized purposes and request that MDS, or a similar service, compile a coursepack of these readings. The publishers argue that MDS, like the publishers themselves, hopes that professors will assign, and students will buy, its "books." The publishers emphasize that MDS advertises its services and advertises the fact that coursepacks can be used "to replace a conventional textbook." Thus, the publishers characterize MDS as a fellow competitor in the higher education market--a competitor who exploits their copyrighted materials without paying the customary fee.

The publishers allege that the coursepacks prepared by MDS do not constitute fair use of copyrighted works for a number of reasons: the coursepacks have no transformative value; the coursepacks are prepared for commercial purposes; the excerpts are of substantial length and constitute the heart of each work as identified by the requesting professor; the copyrighted works excerpted are valuable, original works at the very core of copyright protection; and MDS's refusal to pay permission fees affects an established derivative market in which licensed users pay to copy excerpts of copyrighted works for a variety of purposes.

The publishers rely on the legislative history of the Copyright Act. Specifically, they rely on the Classroom Guidelines, which House and Senate conferees "accept[ed] as part of their understanding of fair use ... with respect to books and periodicals" prior to enactment of the Copyright Act. H.R.REP. NO. 1476, 94th Cong., 2d Sess. 68 (1976) U.S.Code Cong. & Admin.News 1976 at 5659, 5681. The Classroom Guidelines assure educators that non-profit copying for educational purposes of "not more than 1,000 words" is fair use when "[t]he inspiration and decision to use the work and the moment of its use for maximum teaching effectiveness are so close in time that it would be unreasonable to expect a timely reply to a request for permission." H.R.REP. NO. 1476 at 68-71 U.S.Code Cong. & Admin.News 1972 at 5659, 5681-5684. The Classroom Guidelines "prohibit[] ... [c]opying ... used to create ... anthologies, compilations

or collective works." H.R.REP. NO. 1476 at 69 U.S.Code Cong. & Admin.News 1972 at 5659, 5682. The publishers argue that MDS's use of the excerpts far exceeds the "safe harbor" of protection offered by the Guidelines in that MDS copies excerpts that are much longer than 1,000 words, copies for profit, creates anthologies, and copies without permission although it has ample time to seek permission from copyright holders.

MDS, on the other hand, emphasizes that the public has a right to make fair use of a copyrighted work, and to exercise that right without requesting permission from, or paying any fee to, the copyright holder. Because the primary purpose of the Constitution's Copyright Clause is not to enrich authors and inventors but to encourage the progress of science and the production of creative works for the public good, only unfair uses of copyrighted materials are prohibited; fair uses are affirmatively guaranteed to the public. The defendant therefore argues that MDS's production of coursepacks at the direction of professors cannot violate copyright law because the mere mechanical photoreproduction of materials is not a "use" of those materials in the first place. Further, MDS alleges, the classroom use of the coursepacks promotes learning without undue harm to the incentives to create original works; any copying done at the direction of professors who are making fair use of the materials is therefore authorized as necessary and incidental to that fair use.

***4** Professors select materials to expose their students to theories, facts, and recent developments in the field that are most relevant to the individual professor's classroom goals. When the materials selected are not so central to the course or are not so lengthy as to justify, in the professor's judgment, requiring students to purchase the entire original work in which the relevant portions appear, a professor may seek to compile a coursepack of excerpts. Rather than produce multiple copies of the relevant selections themselves or require their students to spend time producing individual copies from scarce library materials,

professors request that MDS, or a similar service, copy and assemble the excerpts selected; MDS produces better copies at less cost than individual students could.

MDS notes that professors receive no commissions or other economic benefit from delivering coursepack materials to MDS, and that the publishers lose no sales since the copyrighted works would not otherwise have been assigned. Thus, even assuming that the mechanical photoreproduction of excerpts does amount to a "use" under the Copyright Act, MDS argues that its production of copies for academic use does not violate copyright law.

IV.

Modern copyright law is derived from the Framers' conviction that providing a secure economic incentive to individuals is the best way to stimulate development of "Science and useful Arts" to the ultimate benefit of the general public: "The Congress shall have 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.

The Supreme Court has acknowledged repeatedly "the inherent tension in the need simultaneously to protect copyrighted material and to allow others to build upon it," *Campbell v. Acuff-Rose Music, Inc.*, --- U.S. ---, ---, 114 S.Ct. 1164, 1169, 127 L.Ed.2d 500 (1994), and thereby maximize progress. Although monopoly protection of the financial interests of inventors and authors is necessary "to stimulate creativity and authorship, excessively broad protection would stifle, rather than advance," intellectual progress. Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV.L.REV. 1105, 1109 (1990). For progress in "Science and useful Arts" to occur, others must be permitted to build upon and refer to the creations of prior thinkers. Accordingly, three judicially created doctrines have been fashioned to limit the copyright monopoly and its potentially stifling

effects: first, copyright law does not protect ideas but only their creative expression; second, facts are not protected, regardless of the labor expended by the original author in uncovering them; and, third, the public may make "fair use" of the copyrighted works. MDS relies most heavily on the fair use doctrine.

***5** The Copyright Act both establishes a general grant of monopoly powers to holders of copyrights and codifies the "fair use" doctrine as an exception to that broad grant. Section 106 of the Copyright Act confers exclusive rights upon individual creators, providing in relevant part as follows:

Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.

17 U.S.C. § 106.

Section 107 carves out an exception to the exclusive rights conferred in section 106, permitting members of the public to use copyrighted works for "fair" purposes:

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include--

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107.

[2][3][4] The four fair use factors "are to be ... weighed together, in light of the purposes of copyright," *Campbell*, --- U.S. at ---, 114 S.Ct. at 1171 (citing *Leval*, *supra*, at 1110-11), and "[t]he primary objective of copyright is not to reward the labor of authors, but '[t]o promote the Progress of Science and useful Arts.'" *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 349, 111 S.Ct. 1282, 1289, 113 L.Ed.2d 358 (1991) (quoting U.S. CONST. art. I, § 8, cl. 8). Thus, the "fair use" concept embodied in section 107 may be understood generally to permit a secondary use that "serves the copyright objective of stimulating productive thought and public instruction without excessively diminishing the incentives for creativity." *Leval*, *supra*, at 1110. An evaluation of fair use therefore "involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand." *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429, 104 S.Ct. 774, 782, 78 L.Ed.2d 574 (1984). Despite statutory mention of "teaching" and "multiple copies for classroom use" as possible fair uses, § 107, "the mere fact that a use is educational and not for profit does not insulate it from a finding of infringement." *Campbell*, --- U.S. at ---, 114 S.Ct. at 1174. Thus, here, the use must be examined under all four factors as must any other allegedly infringing work.

*6 [5] The four statutory factors are unambiguous. Therefore, we need not resort to the legislative history. Congress could easily have enacted the Classroom Guidelines into law by including the Guidelines in the language of section 107; it chose instead to establish four broad factors to be considered in a case-by-case analysis of all alleged fair uses, even classroom uses, of

copyrighted material. We are bound by Congress' decision. The publishers' reliance on the Classroom Guidelines is misplaced; we may not permit the statutory text enacted by both Houses of Congress "to be expanded or contracted by the statements of individual legislators or committees during the course of the enactment process." *West Virginia Univ. Hosps., Inc. v. Casey*, 499 U.S. 83, 98-99, 111 S.Ct. 1138, 1146-47, 113 L.Ed.2d 68 (1991). Thus, we rely exclusively upon the language of the Copyright Act, and its construction in the case law, to determine whether MDS's compilation into coursepacks of excerpts selected by professors is a "fair use" of the copyrighted materials.

V.

A.

[6][7][8] The first factor that courts must evaluate in a fair use determination is "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes." 17 U.S.C. § 107(1). There are two parts to this test: (1) the degree to which the challenged use has transformed the original, and (2) the profit or nonprofit character of the use. Ordinarily, analysis under the first factor centers on "whether the new work merely 'supersede[s] the objects' of the original creation ... or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message; it asks, in other words, whether and to what extent the new work is 'transformative.'" *Campbell*, --- U.S. at ---, 114 S.Ct. at 1171 (citations omitted). Because works that are transformative are more likely to promote science and the arts, transformative works are likely to be found to be fair uses, whereas works that merely copy the original are likely to be found to be infringements of the copyrighted work. However, the Supreme Court has noted in dictum that "[t]he obvious statutory exception to this focus on transformative uses is the straight reproduction of multiple copies for classroom distribution." *Id.* at n. 11. Thus, although the transformative value of the coursepacks is slight, the fact that the

coursepacks are "multiple copies for classroom use" preserves MDS's claim of "fair use."

Further, the transformative value is slight but not nonexistent. The coursepack is essentially a new product comprising selected portions of other works, and perfectly customized to the classroom professor's individualized purpose. A professor may select precisely the materials that he feels are most instructive in the course, with constant opportunity to alter the whole, from time-to-time, by altering the mix. Coursepacks are particularly helpful in newly conceived interdisciplinary courses that draw small portions from a number of traditional, established disciplines. The publishing industry does not offer such highly customized and current materials, and indeed is not equipped to do so.

*7 The other element of the first "fair use" factor is whether the purpose of the use is commercial or nonprofit and educational. *Id.* at ----, 114 S.Ct. at 1174. The "fact that a publication [is] commercial as opposed to nonprofit is a separate factor that tends to weigh against a finding of fair use." *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 562, 105 S.Ct. 2218, 2231-32, 85 L.Ed.2d 588 (1985). The central inquiry "is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price." *Id.*

The coursepacks at issue are "used" at two levels. One "use," MDS's production and sale of the coursepacks, is clearly a for-profit "use," and one, the students' use of the coursepacks in the classroom, is entirely non-profit and educational. The publishers argue that the only relevant "use" under the first factor in this suit against MDS is MDS's sale of the coursepacks to students, not the use of the purchased coursepacks in the classroom. We disagree. Congress specifically mentioned "teaching (including multiple copies for classroom use)," § 107 (emphasis added), as an illustration of a

possible fair use. The language of section 107 incorporates copying (implicit in "multiple copies") within the illustrative use of "teaching." Congress specifically anticipated the use of "multiple copies" for the purpose of "teaching"; we cannot examine the production of multiple copies in a vacuum, ignoring their educational use. The copying in this case is not a use unto itself; it is the mechanical component of the process that makes the material available for classroom use. The language of the statute, "including multiple copies for classroom use," requires us to consider copying as an integral part of "teaching." Therefore, we consider both the mechanical production of the copies and the classroom use of the excerpts in evaluating "the purpose and character of the use" and its commercial or nonprofit educational nature.

[9] Because Congress "eschewed a rigid, bright-line approach to fair use," *Sony*, 464 U.S. at 448 n. 31, 104 S.Ct. at 792 n. 31, our mandate is to conduct "a sensitive balancing of interests," *id.* at 455 n. 40, 104 S.Ct. at 795 n. 40, considering all the circumstances. We must determine whether MDS stood "to profit from exploitation of the copyrighted material without paying the customary price." *Harper & Row*, 471 U.S. at 562, 105 S.Ct. at 2231. In the context of this case, we find the undisputed fact that MDS can produce "multiple copies for classroom use," at a profit, for less than it would cost the professors or students to produce them to be significant. The publishers declined at oral argument to argue that the professors and students may not copy these excerpts and assemble them privately for their own educational purposes. The professors and students, who might otherwise copy the materials themselves, have assigned the task of copying to a professional service that can perform the copying more efficiently. On these facts, the for-profit provision of this service does not weigh against a finding of fair use. Here, MDS obtains a profit by providing a service. MDS charges on a per-page basis, regardless of content; MDS does not extract an extra fee for reproducing materials that are copyrighted. MDS does not "exploit" copyrighted material within the meaning of

Harper & Row, 471 U.S. at 562, 105 S.Ct. at 2231, because its fee does not turn on the content of the materials, copyrighted or not, that it copies. It does not, of course, select the materials to be copied or determine the amount to be excerpted. The business of producing and selling coursepacks is more properly viewed as the exploitation of professional copying technologies and the inability of academic parties to reproduce printed materials efficiently, not the exploitation of copyrighted, creative materials. We hold that the Copyright Act does not prohibit professors and students who may make copies themselves from using the photoreproduction services of a third party in order to obtain those same copies at less cost.

*8 Thus, the coursepacks fit within the exception to the "transformative" quality requirement, and the predominant character of the use of excerpts in coursepacks is not commercial but "nonprofit educational." The first factor therefore favors a finding of fair use.

B.

[10][11][12] The second fair use factor, "the nature of the copyrighted work," 17 U.S.C. § 107(2), recognizes that fair use is more difficult to establish when the work being used is at "the core of intended copyright protection." Campbell, --- U.S. at ---, 114 S.Ct. at 1175. Factual compilations, such as telephone book listings, with only a small element of creativity and originality may be used more freely than creative works. Feist, 499 U.S. at 348-51, 111 S.Ct. at 1289-91. The materials copied in this case are much closer to the core of work protected by copyright than to the mere compilations of raw data in the phone books in Feist. The excerpts used in the coursepacks are substantially creative, containing original analysis and creative theories. Although some of the copyrighted works contain non-original material not protected by copyright, each excerpt contains far more than the "minimal degree of creativity" that qualifies it as "independently created by the

author" and therefore original. Id. at 344- 48, 111 S.Ct. at 1286-89.

[13] The fact that the excerpts in this case are extracted from works that may be categorized as "non-fiction" does not mean that any use is fair use. Rather, monopoly protections accrue "equally to works of fiction and nonfiction." Harper & Row, 471 U.S. at 546, 105 S.Ct. at 2223. Copyright protections are intended to induce the creation of new material of potential historical value, not just fictional works, and therefore extend to the excerpts here at issue.

The second factor, on these facts, does little more than confirm that the works at issue are protected by copyright and may only be used "fairly." Thus, the fair use examination properly proceeds to evaluate factors three and four to determine whether this use of the excerpts is fair.

C.

[14] The third factor considers "the amount and substantiality of the portion used in relation to the copyrighted work as a whole." 17 U.S.C. § 107(3). In the context of a musical parody's use of a copyrighted song, the Supreme Court interpreted this factor to inquire whether the quantity and value of the materials used were reasonable in relation to the purpose of the copying, noting that "the extent of permissible copying varies with the purpose and character of the use." Campbell, --- U.S. at ---, 114 S.Ct. at 1175. As the Supreme Court acknowledged, "[t]he facts bearing on this factor will also tend to address the fourth [factor, which evaluates market effect], by revealing the degree to which the parody may serve as a market substitute for the original or potentially licensed derivatives." Id. Thus, we ask whether such substantial portions of a copyrighted work were used that a coursepack is "composed primarily of [the] original, particularly [the original's] heart, with little added or changed" such that the coursepack merely supersedes the copyrighted work, "fulfilling demand for the original." Id. at ---, 114 S.Ct. at 1176.

*9 There is no evidence that the six excerpts in the coursepacks are so substantial as to supersede the original works. The publishers have submitted a declaration stating that, in accordance with established practices, permission would have been denied, even if sought, with regard to the excerpt from *Public Opinion*, by Walter Lippmann. The publisher considers the excerpt so lengthy and the published edition sufficiently inexpensive that the book should have been purchased rather than copied with permission, for a fee. The declarant opined that copying 46 pages would adversely affect book sales, but offered no factual evidence in this regard. The fact that the publisher would prefer the book to be purchased is not relevant to our analysis. Each of the professors who delivered the materials at issue to MDS signed a statement that he would not otherwise have assigned the copyrighted work to the class. Nothing in the record contradicts these declarations.

The lengthiest excerpt used in one of the coursepacks comprised only 30% of *Farewell to the Party of Lincoln: Black Politics in the Age of FDR*, by Nancy J. Weiss, the original copyrighted work. Other excerpts ranged from 5% to 18% of the original works. There is no evidence to suggest that even the 30% selected from Weiss's book extracted the heart of the work rather than just those portions that the professor deemed instructive for his limited classroom purposes. Cf. *Harper & Row*, 471 U.S. at 565-66, 105 S.Ct. at 2223-24. Given the uncontroverted declarations of the professors that they would not have chosen to assign the original works even if copied excerpts were not available, there is no basis for us to conclude that the portions extracted from the copyrighted works were so substantial that the resulting coursepacks superseded the originals. As the district court noted, the six excerpts at issue in this case "are truly 'excerpts,' and do not purport to be replacements for the original works." *Princeton*, 855 F.Supp. at 910.

The record cannot support a finding that the copyrighted works at issue were excerpted so substantially that the coursepacks

superseded the original works. Thus, the third factor favors a finding of fair use.

D.

[15][16][17] The fourth fair use factor is "the effect of the use upon the potential market for or value of the copyrighted work." 17 U.S.C. § 107(4). Under this factor, courts must consider the extent of market harm caused by the particular actions of the alleged infringer and "whether unrestricted and widespread conduct of the sort engaged in by the defendant ... would result in a substantially adverse impact on the potential market for the original." *Campbell*, --- U.S. at ---, 114 S.Ct. at 1177 (internal quotation marks omitted). The fourth factor is the single most important element of fair use, *Harper & Row*, 471 U.S. at 566, 105 S.Ct. at 2223-24, and "must take account not only of harm to the original but also of harm to the market for derivative works." *Id.* at 568, 105 S.Ct. at 2234.

*10 [18] Because the record before us contains no evidence that the market for the original work, or for derivative works, was affected by the use of excerpts in coursepacks, the resolution of this factor turns on the assignment of the burden of proof on market effect. The Sony Court assigned the burden of proof on market effect to the party alleging infringement, 464 U.S. at 451, 104 S.Ct. at 793, whereas the *Campbell* Court assigned the burden of proof on market effect to the proponent of the fair use defense, --- U.S. at --- - ---, 114 S.Ct. at 1177-79. [FN1] The rule articulated in *Sony* is the one that is applicable to this case because both *Sony* and the case at hand involve noncommercial uses of a copyrighted work whereas *Campbell* articulated the rule for commercial uses of a copyrighted work. A commercial use may be presumed to affect the market whereas no such assumption of market effect may be made with regard to a nonprofit educational use. *Sony*, 464 U.S. at 451, 104 S.Ct. at 793.

FN1. *Campbell*, --- U.S. at --- - ---, 114 S.Ct. at 1177-79, held that, because fair use is an affirmative

defense, "its proponent would have difficulty carrying the burden of demonstrating fair use without favorable evidence about relevant markets," and that a silent record on the fourth factor "disentitled the proponent of the defense" to summary judgment.

In *Sony*, the Court held:

A challenge to a noncommercial use of a copyrighted work requires proof either that the particular use is harmful, or that if it should become widespread, it would adversely affect the potential market for the copyrighted work.... What is necessary is a showing by a preponderance of the evidence that some meaningful likelihood of future harm exists. If the intended use is for commercial gain, that likelihood may be presumed. But if it is for a noncommercial purpose, the likelihood must be demonstrated.

Id. Accordingly, because we have determined that the use of the excerpts at issue in the coursepacks is for nonprofit educational purposes, we do not apply a presumption of market harm against MDS's use.

[19] Rather, it is the publishers' burden to demonstrate at least a meaningful likelihood that future harm to a potential market for the copyrighted works will occur. Works or uses that creators of original works would "in general develop or license others to develop" make up the market for potential derivative uses. *Campbell*, --- U.S. at ---, 114 S.Ct. at 1178. The plaintiffs did not demonstrate that the coursepacks affected the market for the original copyrighted works or the potential market for derivative works, such as published anthologies, nor did they demonstrate any "meaningful likelihood of future harm," *Sony*, 464 U.S. at 451, 104 S.Ct. at 793, to any market. Rather, the plaintiffs limited their allegations and demonstrations of "market effect" to evidence of lost permission fees resulting from defendants' refusal to seek permission and pay fees for the copying and selling of excerpts from copyrighted works.

*11 [20] Evidence of lost permission fees does not bear on market effect. The right to permission fees is precisely what is at issue here. It is circular to argue that a use is unfair, and a fee therefore required, on the basis that the publisher is otherwise deprived of a fee. The publishers must demonstrate a likelihood that MDS's use of the excerpts replaces or affects the value of the copyrighted works, not just that MDS's failure to pay fees causes a loss of fees, to which the plaintiffs may or may not have been entitled in the first instance. Given the uncontroverted fact that professors would not have assigned the copyrighted works in the absence of available coursepack compilations of excerpts, it appears that there is no damage to the market for the original work.

Photoreproductions of limited excerpts, even if bound, are poor substitutes for a published work for any use beyond the precise scope of the course. For example, it is unlikely that students who wish to build a personal library of books from their college years for future reference will retain loosely bound photoreproduction coursepacks of limited excerpts; unwieldy coursepacks may be inconvenient and unattractive to display and may or may not contain the material sought later in life.

Moreover, the students who used the coursepacks were not a market for purchase of the original works; the professors would not otherwise have required students to purchase the original works. If it had any effect at all, use of the excerpted materials enhanced the prospect that the original works might later be of interest to the student. Students might purchase the copyrighted works when, for example, taking other courses in the same discipline, conducting more extensive research into a subject "touched upon" in an excerpt, or doing graduate work in a broader field to which the excerpted material later appeared relevant and was recalled.

Therefore, we must conclude that there is no evidence of market effect and that the fourth,

and most important factor, weighs decisively in favor of "fair use."

E.

[21][22] The four factors specifically set forth in section 107 for consideration are not an exclusive list of the factors relevant to a fair use determination. We confront here an additional consideration. More than one hundred authors declared on record that they write for professional and personal reasons such as making a contribution to the discipline, providing an opportunity for colleagues to evaluate and critique the authors' ideas and theories, enhancing the authors' professional reputations, and improving career opportunities. These declarants stated that their primary purpose in writing is not for monetary compensation and that they advocate wide dissemination of excerpts from their works via coursepacks without imposition of permission fees. The fact that incentives for producing higher education materials may not revolve around monetary compensation is highly relevant. Copyright law seeks to encourage the use of works to the greatest extent possible without creating undue disincentives to the creation of new works. The inclusion of excerpts in coursepacks without the payment of permission fees does not deprive authors and inventors of the rewards that the record indicates authors value, such as recognition. Finding that the excerpts at issue here were used fairly would deprive the authors of their share of permission fees assessed for the copies. However, the record indicates that monetary compensation is a secondary consideration for authors in this field, and the permission fees, while significant in the aggregate to publishing companies, are likely to amount to a mere pittance for individual authors. MDS's use of the copyrighted works appears to provide the authors with incentive to create new works, thereby advancing the progress of science and the arts, rather than to discourage them from doing so.

*12 Thus, an additional factor, incentives to create in this specialized field, weighs in favor of a finding of fair use.

VI.

Because the statutory factors, plus author incentives, dictate a finding of fair use, we conclude that MDS did not infringe upon the copyrights of the publishers in this case. We REVERSE the district court and order summary judgment for the defendants on the basis of fair use.

DAVID A. NELSON, Circuit Judge, concurring in part and dissenting in part.

A generation ago, I suspect, this would have been an easy case for us. The notion that it could be "fair use" for a commercial vendor, acting without authorization from the copyright holder, to copy and sell as much as 30 percent of a copyrighted work of scholarship is a notion that would once have seemed patently absurd.

Changes in technology, and concomitant changes in commercial duplication services and in teaching practices, may have made such a notion seem less patently absurd today. Indeed, my colleagues' rationale for concluding that the defendants' unauthorized coursepacks represent a fair use of the copyrighted materials impresses me as sufficiently plausible to justify reversal of the district court's finding of willfulness. I concur in today's judgment insofar as it vacates the enhanced damages awarded on the strength of the district court's finding that the defendants acted willfully.

I do not concur in the majority's resolution of the fair use question itself. The question of fair use ought to be decided in favor of the plaintiff publishers, in my view, or at the very least ought to be the subject of a trial.

I

Of the four statutory factors that must be considered in determining whether a particular use of a copyrighted work is "fair," the most important is the one set forth in 17 U.S.C. § 107(4). See *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 566, 105 S.Ct. 2218, 2223, 85 L.Ed.2d 588 (1985),

citing 3 M. Nimmer, Copyright § 13.05[A], at 13-76 (1984). I turn first to this factor, "the effect of the use upon the potential market for or value of the copyrighted work."

The burden of proof as to market effect rests with the copyright holder if the challenged use is of a "noncommercial" nature. The burden rests with the alleged infringer, on the other hand, if the challenged use is "commercial" in nature. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 451, 104 S.Ct. 774, 793, 78 L.Ed.2d 574 (1984). My colleagues on the panel conclude that the plaintiff publishers have the burden of proof because the use being challenged here is "noncommercial." I respectfully disagree.

It is true that the use to which the materials are put by the students who purchase the coursepacks is noncommercial in nature. But the use of the materials by the students is not the use that the plaintiff publishers are challenging. What the publishers are challenging is the duplication of copyrighted materials for sale by a for-profit corporation that has decided to maximize its profits--and give itself a competitive edge over other copy shops--by declining to pay licensing fees to the holders of the copyrights.

***13** The defendants' use of excerpts from the books at issue in this case is no less commercial in nature than was *The Nation Magazine's* use of the excerpts from President Ford's book in *Harper & Row*. Like the students who purchase unauthorized coursepacks, the purchasers of *The Nation* did not put the contents of the magazine to commercial use--but that did not stop the Supreme Court from characterizing the defendant's use of excerpts from the copyrighted book as "a publication [that] was commercial as opposed to nonprofit..." *Harper & Row*, 471 U.S. at 562, 105 S.Ct. at 2231. And like the use that is being challenged in the case now before us, the use challenged in *Harper & Row* was "presumptively an unfair exploitation of the monopoly privilege that belongs to the owner of the copyright." *Id.*, quoting *Sony*, 464 U.S. at 451, 104 S.Ct. at 793.

The strength of the Sony presumption may vary according to the context in which it arises, and the presumption disappears entirely where the challenged use is one that truly transforms the original work into a new artistic creation. See *Campbell v. Acuff-Rose Music, Inc.*, --- U.S. ---, ---, 114 S.Ct. 1164, 1176, 127 L.Ed.2d 500 (1994). The case at bar involves mere duplication for commercial purposes, as I see it, but I readily concede that the presumption may be weaker in the present case than it would be in many other contexts. There is a presumption of unfairness here, nonetheless, and I am not persuaded that the defendants have rebutted it.

If I am wrong about the existence of the presumption--if the challenged use is not commercial, in other words, and if the plaintiff publishers have the burden of proving an adverse effect upon either the potential market for the copyrighted works or the potential value of the works--I believe that the publishers have carried the burden of proving a diminution in potential market value.

One test for determining market harm--a test endorsed by the Supreme Court in both *Sony* and *Harper & Row*--is evocative of Kant's categorical imperative. "[T]o negate fair use," the Supreme Court has said, "one need only show that if the challenged use 'should become widespread, it would adversely affect the potential market for the copyrighted work.'" *Harper & Row*, 471 U.S. at 568, 105 S.Ct. at 2234, quoting *Sony*, 464 U.S. at 451, 104 S.Ct. at 793 (emphasis supplied in part). Under this test, as I read the record, it is reasonably clear that the plaintiff publishers have succeeded in negating fair use.

The record shows that most of the copy shops that compete with the defendants in the sale of coursepacks pay modest "permission fees" for the privilege of duplicating and selling excerpts from copyrighted works. In the early 1990s, it appears, the three plaintiffs were collecting permission fees at a rate that approached a total of \$.5 million a year. If copy shops across the nation were to start doing what the defendants have been doing

here, this revenue stream would shrivel and the potential value of the copyrighted works of scholarship published by the plaintiffs would be diminished accordingly.

***14** The defendants contend that the permission fee argument is circular. In support of this contention they cite the dissenting opinion in *American Geophysical Union v. Texaco, Inc.*, 37 F.3d 881, 900 et seq. (2d Cir.) (Jacobs, J., dissenting), amended & superseded, 60 F.3d 913 (1994), cert. dismissed, --- U.S. ---, 116 S.Ct. 592, 133 L.Ed.2d 486 (1995), and a footnote in a Court of Claims decision, *Williams & Wilkins Co. v. United States*, 203 Ct.Cl. 74, 487 F.2d 1345, 1357 n. 19 (1973), aff'd by an equally divided court, 420 U.S. 376, 95 S.Ct. 1344, 43 L.Ed.2d 264 (1975). But the potential uses of the copyrighted works at issue in the case before us obviously include the selling of licenses to copy portions of the works for inclusion in coursepacks, and the likelihood that publishers actually will license such copying is a demonstrated fact. A licensing market actually exists here, as it did not in *Williams & Wilkins* or *American Geophysical*. I believe that this is a "protectable derivative market," to use the terminology employed by the Supreme Court in *Campbell*, --- U.S. at ---, 114 S.Ct. at 1178. If so, there is no circularity in saying--as I do say--that the potential for destruction of the protectable derivative market by widespread circumvention of the plaintiffs' permission fee system is enough, under the *Harper & Row* test, "to negate fair use."

My final point with regard to the fourth statutory factor is that an absence of market harm is not supported by the affidavits of the three professors who assigned one or more of the copyrighted works to be read by the students in their classes. None of these affidavits shows that the professor executing the affidavit would have refrained from assigning the copyrighted work at issue if the position taken by the copyright holder had been sustained beforehand.

It is true that Professor Victor Lieberman, who assigned the excerpt from the Olson and

Roberts book on America and Vietnam, raises questions about the workability of the permission systems of "many publishers." In 1991, Professor Lieberman avers, a Kinko's copy shop to which he had given materials for inclusion in a coursepack experienced serious delay in obtaining permissions from unnamed publishers. Professor Lieberman does not say that a timely permission could not have been obtained from the publisher of the Olson and Roberts book, however, and he does not say that he would have refrained from assigning the work if the copy shop had been required to pay a permission fee for it.

It is also true that the publisher of one of the copyrighted works in question here (*Public Opinion*, by Walter Lippmann) would have turned down a request for permission to copy the 45-page excerpt that the defendants included in a coursepack prepared to the specifications of Professor Donald Kinder. The excerpt was so large that the publisher would have preferred that students buy the book itself, and the work was available in an inexpensive paperback edition. But Professor Kinder does not say that he would have refrained from assigning the excerpt from the Lippmann book if it could not have been included in the coursepack. Neither does he say that he would have refrained from assigning any of the other works mentioned in his affidavit had he known that the defendants would be required to pay permission fees for them.

***15** The third professor, Michael Dawson, assigned a 95-page excerpt from the book on black politics by Nancy Weiss. Professor Dawson does not say that a license was not available from the publisher of the Weiss book, and he does not say that the license fee would have deterred him from assigning the book.

II

The other statutory factors are less important, except insofar as they touch on the fourth factor. I shall deal with them relatively briefly.

A

As to "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes," 17 U.S.C. § 107(1), I have already explained my reasons for concluding that the challenged use is of a commercial nature. I recognize, of course, that the first sentence of 17 U.S.C. § 107 lists "teaching (including multiple copies for classroom use)" as one of the purposes for which the reproduction of a copyrighted work may constitute a non-infringing fair use. The quoted language may or may not suggest that the professors themselves could properly make multiple copies of large excerpts from the copyrighted works without paying permission fees, but it does not suggest to me that independent contractors who are not members of the teaching profession are free to do so.

My colleagues find it significant that the defendant copy shop can profitably produce multiple copies for less than it would cost the professors or the students to produce them. Most of the copy shops with which the defendants compete have been paying permission fees, however, and I assume that these competitors can still perform the copying on a more cost-effective basis than the professors or students can. This strikes me as a more significant datum than the ability of a black market copy shop to beat the do-it-yourself cost.

As to the degree to which the challenged use has transformed the original copyrighted work, which is another element in the first statutory factor, the majority opinion finds the transformative aspect of the coursepacks to be "slight." I agree. If you make verbatim copies of 95 pages of a 316-page book, you have not transformed the 95 pages very much--even if you juxtapose them to excerpts from other works and package everything conveniently. This kind of mechanical "transformation" bares little resemblance to the creative metamorphosis accomplished by the parodists in the Campbell case.

B

The second statutory factor, "the nature of the copyrighted work," is not in dispute here. The defendants acknowledge that the excerpts copied for the coursepacks contained creative material, or "expression;" it was certainly not telephone book listings that the defendants were reproducing.

C

The third statutory factor, "the amount and substantiality of the portion used in relation to the copyrighted work as a whole," may have more significance for the 95-page excerpt from the black politics book than for the 17-page excerpt from the Vietnam book. But all of the excerpts far exceed the 1,000 word limit that the legislative history of the Copyright Revision Act of 1976 suggests as a benchmark for "educational" copying. See H.R.Rep. No. 1476, 94th Cong. 2nd Sess. (1976); H.R.Conf.Rep. No. 1733, 94th Cong. 2nd Sess. (1976).

***16** My colleagues would give no consideration to the legislative history of the Copyright Revision Act, their theory being that the statutory fair use factors are unambiguous. But the fair use issue has long been the most troublesome one in the whole law of copyright, see *Acuff-Rose Music, Inc. v. Campbell*, 972 F.2d 1429, 1439 (6th Cir.1992) (Nelson, J., dissenting), and the 1976 legislation did not make it any less so. The Classroom Guidelines incorporated in the legislative history clearly lack the force of law, but this does not mean that we must shut our eyes to them altogether. See *Harper & Row*, 471 U.S. at 549-553, 105 S.Ct. at 2224-27, where the Supreme Court turned for guidance not only to the house report cited above, but to an earlier senate report "discussing fair use of photocopied materials in the classroom...." *Id.* at 553, 105 S.Ct. at 2226. And see *Campbell*, --- U.S. at ---, 114 S.Ct. at 1170, where the Court likewise turned to the congressional committee reports for guidance.

The conference committee that reported out the bill enacted in 1976 did not consider the

compilation of anthologies to be fair use. The defendants' coursepacks are anthologies, of course, and the excerpts they contain are much longer than the 1,000-word standard suggested as a safe harbor by the conferees. The guidance offered by the legislative history of the statute that codified the fair use doctrine is far from irrelevant, in my view.

III

I take as the text for my concluding part Justice Stewart's well-known exposition of the correct approach to "ambiguities" (see *Sony*, 464 U.S. at 431, 104 S.Ct. at 783) in the copyright law:

"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. 'The sole interest of the United States and the primary object in conferring the monopoly,' this Court has said, 'lie in the general benefits derived by the public from the labors of authors.' ... When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of this basic purpose." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156, 95 S.Ct. 2040, 2044, 45 L.Ed.2d 84 (1975) (footnotes and citations omitted).

The majority opinion attaches considerable weight to the assertions of numerous academic authors that they do not write primarily for money [FN1] and that they want their published writings to be freely copyable. The suggestion is that unlicensed copying will "stimulate artistic creativity for the general public good."

FN1. I imagine that most of these academics are acquainted with the pertinent dictum of Dr. Johnson, see *Campbell*, --- U.S. at ---, 114 S.Ct. at 1174, and to my ear, at least, their testimony has the ring of truth. One might almost view what they say as an admission against interest.

This suggestion would be more persuasive, I think, if the record did not demonstrate that licensing income is significant to the publishers. It is the publishers who hold the copyrights, of course--and the publishers obviously need economic incentives to publish scholarly works, even if the scholars do not need direct economic incentives to write such works.

*17 The writings of most academic authors, it seems fair to say, lack the general appeal of works by a Walter Lippmann, for example. (Lippmann is the only non-academic author whose writings are involved in this case.) One suspects that the profitability of at least some of the other books at issue here is marginal. If publishers cannot look forward to receiving permission fees, why should they continue publishing marginally profitable books at all? And how will artistic creativity be stimulated if the diminution of economic incentives for publishers to publish academic works means that fewer academic works will be published?

If the decision in this case stands, and if our sister circuits follow our lead, it seems likely that some academics will find it harder to get their books published. Perhaps these academics will not perish as a result--electronic samizdats may turn out to be the wave of the future, for all I know--but book publishing as we have known it will clearly have taken a hit. An unfair hit, in my judgment. I respectfully dissent from this court's resolution of the fair use issue.

99 F.3d 1381
65 USLW 2324,
1997 Copr.L.Dec. P 27,579,
114 Ed. Law Rep. 34, 1996 Fed.App. 357P
(Cite as: 99 F.3d 1381)

**PRINCETON UNIVERSITY PRESS,
Macmillan, Inc., and St. Martin's Press,
Inc.,
Plaintiffs-Appellees,
v.
MICHIGAN DOCUMENT SERVICES, INC.,
and James M. Smith, Defendants-
Appellants.**

No. 94-1778.

United States Court of Appeals,
Sixth Circuit.
En Banc Rehearing
Decided Nov. 8, 1996.

NELSON, J., delivered the opinion of the court, in which KENNEDY, BOGGS, NORRIS, SUHRHEINRICH, SILER, BATCHELDER and COLE, JJ., joined. MARTIN, C.J. (pp. 1393-94), MERRITT, J. (pp. 1394-97), and RYAN, J. (pp. 1397- 1412), delivered separate dissenting opinions, with Judge DAUGHTREY joining in Judge MERRITT'S and Judge RYAN'S dissents, and Judge MOORE joining in Judge MERRITT'S dissent.

DAVID A. NELSON, Circuit Judge.

This is a copyright infringement case. The corporate defendant, Michigan Document Services, Inc., is a commercial copyshop that reproduced substantial segments of copyrighted works of scholarship, bound the copies into "coursepacks," and sold the coursepacks to students for use in fulfilling reading assignments given by professors at the University of Michigan. The copyshop acted without permission from the copyright holders, and the main question presented is whether the "fair use" doctrine codified at 17 U.S.C. § 107 obviated the need to obtain such permission.

Answering this question "no," and finding the infringement willful, the district court entered a summary judgment order in which the copyright holders were granted equitable relief and were awarded damages that may have been enhanced for willfulness. Princeton Univ. Press v. Michigan Document Servs., Inc., 855 F.Supp. 905 (E.D.Mich.1994). A three-judge panel of this court reversed the judgment on appeal, but a majority of the active judges of the court subsequently voted to rehear the case en banc. The appeal has now been argued before the full court.

[1] We agree with the district court that the defendants' commercial exploitation of the copyrighted materials did not constitute fair use, and we shall affirm that branch of the district court's judgment. We believe that the district court erred in its finding of willfulness, however, and we shall vacate the damages award because of its possible linkage to that finding...

Ann Arbor, the home of the University of Michigan, is also home to several copyshops. Among them is defendant Michigan Document Services (MDS), a corporation owned by defendant James Smith. We are told that MDS differs from most, if not all, of its competitors in at least one important way: it does not request permission from, nor does it pay agreed royalties to, copyright owners.

Mr. Smith has been something of a crusader against the system under which his competitors have been paying agreed royalties, or "permission fees" as they are known in the trade. The story begins in March of 1991, when Judge Constance Baker Motley, of the United States District Court for the Southern District of New York, decided the first reported case involving the copyright implications of educational coursepacks. See Basic Books, Inc. v. Kinko's Graphics Corp., 758 F.Supp. 1522 (S.D.N.Y.1991), holding that a Kinko's copyshop had violated the copyright statute by creating and selling coursepacks without permission from the publishing houses that held the copyrights. After Kinko's, we are told, many copyshops that had not previously requested permission from

copyright holders began to obtain such permission. Mr. Smith chose not to do so. He consulted an attorney, and the attorney apparently advised him that while it was "risky" not to obtain permission, there were flaws in the Kinko's decision. Mr. Smith also undertook his own study of the fair use doctrine, reading what he could find on this subject in a law library. He ultimately concluded that the Kinko's case had been wrongly decided, and he publicized this conclusion through speeches, writings, and advertisements. His advertisements stressed that professors whose students purchased his coursepacks would not have to worry about delays attendant upon obtaining permission from publishers.

Not surprisingly, Mr. Smith attracted the attention of the publishing industry. Three publishers--Princeton University Press, MacMillan, Inc., and St. Martin's Press, Inc.--eventually brought the present suit against Mr. Smith and his corporation.

Each of the plaintiff publishers maintains a department that processes requests for permission to reproduce portions of copyrighted works. (In addition, copyshops may request such permission through the Copyright Clearance Center, a national clearinghouse.) Macmillan and St. Martin's, both of which are for-profit companies, claim that they generally respond within two weeks to requests for permission to make copies for classroom use. Princeton, a non-profit organization, claims to respond within two to four weeks. Mr. Smith has not put these claims to the test, and he has not paid permission fees.

II

The fair use doctrine, which creates an exception to the copyright monopoly, "permits [and requires] courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster." *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577, 114 S.Ct. 1164, 1170, 127 L.Ed.2d 500 (1994), quoting *Stewart v. Abend*, 495 U.S. 207, 236, 110

S.Ct. 1750, 1768, 109 L.Ed.2d 184 (1990). Initially developed by the courts, the doctrine was codified at 17 U.S.C. § 107 in 1976. Congress used the following formulation in Section 107:

"[T]he fair use of a copyrighted work, including such use by reproduction in copies ... for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include--

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

[2] This language does not provide blanket immunity for "multiple copies for classroom use." Rather, "whether a use referred to in the first sentence of Section 107 is a fair use in a particular case ... depend[s] upon the application of the determinative factors." *Campbell*, 510 U.S. at 578 n. 9, 114 S.Ct. at 1170 n. 9, quoting S.Rep. No. 94-473, p. 62. [FN1]

FN1. Judge Merritt's dissent rejects this proposition and asserts, in effect, that under the plain language of the copyright statute the making of multiple copies for classroom use constitutes fair use ipso facto. Judge Merritt's reading of the statute would be unassailable if Congress had said that "the use of a copyrighted work for purposes such as teaching (including multiple copies for classroom use) is not an infringement of copyright." But that is not what Congress said. It said, rather, that "the fair use of a copyrighted work, including such use

[i.e. including "fair use"] ... for purposes such as ... teaching (including multiple copies for classroom use) ... is not an infringement of copyright."

When read in its entirety, as Judge Ryan's dissent correctly recognizes, the quoted sentence says that fair use of a copyrighted work for purposes such as teaching (including multiple copies for classroom use) is not an infringement. And the statutory factors set forth in the next sentence must be considered in determining whether the making of multiple copies for classroom use is a fair use in "any particular case," just as the statutory factors must be considered in determining whether any other use referred to in the first sentence is a fair use in a particular case. To hold otherwise would be to subvert the intent manifested in the words of the statute and confirmed in the pertinent legislative history.

The four statutory factors may not have been created equal. In determining whether a use is "fair," the Supreme Court has said that the most important factor is the fourth, the one contained in 17 U.S.C. § 107(4). See *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 566, 105 S.Ct. 2218, 2233, 85 L.Ed.2d 588 (1985), citing 3 M. Nimmer, Copyright § 13.05[A], at 13-76 (1984). (But see *American Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 926 (2d Cir.1994), cert. dismissed, --- U.S. ----, 116 S.Ct. 592, 133 L.Ed.2d 486 (1995), suggesting that the Supreme Court may now have abandoned the idea that the fourth factor is of paramount importance.) We take it that this factor, "the effect of the use upon the potential market for or value of the copyrighted work," is at least *primus inter pares*, figuratively speaking, and we shall turn to it first.

[3][4] The burden of proof as to market effect rests with the copyright holder if the challenged use is of a "noncommercial" nature. The alleged infringer has the burden, on the other hand, if the challenged use is

***1386** "commercial" in nature. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 451, 104 S.Ct. 774, 793, 78 L.Ed.2d 574 (1984). In the case at bar the defendants argue that the burden of proof rests with the publishers because the use being challenged is "noncommercial." We disagree.

It is true that the use to which the materials are put by the students who purchase the coursepacks is noncommercial in nature. But the use of the materials by the students is not the use that the publishers are challenging. What the publishers are challenging is the duplication of copyrighted materials for sale by a for-profit corporation that has decided to maximize its profits-- and give itself a competitive edge over other copyshops--by declining to pay the royalties requested by the holders of the copyrights. [FN2]

FN2. Two of the dissents suggest that a copyshop merely stands in the shoes of its customers and makes no "use" of copyrighted materials that differs materially from the use to which the copies are put by the ultimate consumer. But subject to the fair use exception, 17 U.S.C. § 106 gives the copyright owner the "exclusive" right "to reproduce the copyrighted work in copies...." And if the fairness of making copies depends on what the ultimate consumer does with the copies, it is hard to see how the manufacture of pirated editions of any copyrighted work of scholarship could ever be an unfair use. As discussed in Part III A, *infra*, the dissenters' suggestion--which proposes no limiting principle--runs counter to the legislative history of the Copyright Act and has properly been rejected by the courts.

The defendants' use of excerpts from the books at issue here was no less commercial in character than was *The Nation* magazine's use of copyrighted material in *Harper & Row*, where publication of a short article containing excerpts from the still unpublished manuscript of a book by President Ford was held to be an

unfair use. Like the students who purchased unauthorized coursepacks, the purchasers of *The Nation* did not put the contents of the magazine to commercial use--but that did not stop the Supreme Court from characterizing the defendant's use of the excerpts as "a publication [that] was commercial as opposed to nonprofit...." *Harper & Row*, 471 U.S. at 562, 105 S.Ct. at 2231. And like the use that is being challenged in the case now before us, the use challenged in *Harper & Row* was "presumptively an unfair exploitation of the monopoly privilege that belongs to the owner of the copyright." *Id.*, quoting *Sony*, 464 U.S. at 451, 104 S.Ct. at 793. [FN3]

FN3. Judge Ryan's dissent maintains that there cannot be an "exploitation" of a copyrighted work unless the exploiter assesses the work's market potential, makes a selection based on content, and realizes a profit from the substance of the work. But the dictionary defines "exploit" in terms that include "to take advantage of, utilize," see *Webster's Third New International Dictionary* (Unabridged), and nothing in *Harper & Row* suggests that the Supreme Court intended a narrower or more idiosyncratic meaning.

The dissent also points out that it was magazine employees, not outsiders, who obtained the unpublished manuscript of the Ford book and selected the portions that were included in the offending article. But nothing turns on the "in house" character of such activities. If a college professor had obtained the manuscript, selected the excerpts and peddled the article on a free-lance basis, can anyone doubt that it would have been a violation of the copyright for *The Nation* to publish the professor's article?

The strength of the *Sony* presumption may vary according to the context in which it arises, and the presumption disappears entirely where the challenged use is one that transforms the original work into a new artistic

creation. See *Campbell*, 510 U.S. at 587-89, 114 S.Ct. at 1176. Perhaps the presumption is weaker in the present case than it would be in other contexts. There is a presumption of unfairness here, nonetheless, and we are not persuaded that the defendants have rebutted it.

[5] If we are wrong about the existence of the presumption--if the challenged use is not commercial, in other words, and if the plaintiff publishers have the burden of proving an adverse effect upon either the potential market for the copyrighted work or the potential value of the work-- we believe that the publishers have carried the burden of proving a diminution in potential market value.

One test for determining market harm--a test endorsed by the Supreme Court in *Sony*, *Harper & Row*, and *Campbell*--is evocative of Kant's categorical imperative. "[T]o negate fair use," the Supreme Court has said, ***1387** "one need only show that if the challenged use 'should become widespread, it would adversely affect the potential market for the copyrighted work.' " *Harper & Row*, 471 U.S. at 568, 105 S.Ct. at 2234, quoting *Sony*, 464 U.S. at 451, 104 S.Ct. at 793 (emphasis supplied in part). Under this test, we believe, it is reasonably clear that the plaintiff publishers have succeeded in negating fair use.

As noted above, most of the copyshops that compete with MDS in the sale of coursepacks pay permission fees for the privilege of duplicating and selling excerpts from copyrighted works. The three plaintiffs together have been collecting permission fees at a rate approaching \$500,000 a year. If copyshops across the nation were to start doing what the defendants have been doing here, this revenue stream would shrivel and the potential value of the copyrighted works of scholarship published by the plaintiffs would be diminished accordingly.

The defendants contend that it is circular to assume that a copyright holder is entitled to permission fees and then to measure market loss by reference to the lost fees. They argue

that market harm can only be measured by lost sales of books, not permission fees. But the circularity argument proves too much. Imagine that the defendants set up a printing press and made exact reproductions--asserting that such reproductions constituted "fair use"-- of a book to which they did not hold the copyright. Under the defendants' logic it would be circular for the copyright holder to argue market harm because of lost copyright revenues, since this would assume that the copyright holder had a right to such revenues.

A "circularity" argument indistinguishable from that made by the defendants here was rejected by the Second Circuit in *American Geophysical*, 60 F.3d at 929-31 (Jon O. Newman, C.J.), where the photocopying of scientific articles for use by Texaco researchers was held to be an unfair use. It is true, the Second Circuit acknowledged, that "a copyright holder can always assert some degree of adverse [e]ffect on its potential licensing revenues as a consequence of [the defendant's use] ... simply because the copyright holder has not been paid a fee to permit that particular use." *Id.* at 929 n. 17. But such an assertion will not carry much weight if the defendant has "filled a market niche that the [copyright owner] simply had no interest in occupying." *Id.* at 930 (quoting *Twin Peaks Prods., Inc. v. Publications Int'l, Ltd.*, 996 F.2d 1366, 1377 (2d Cir.1993)). Where, on the other hand, the copyright holder clearly does have an interest in exploiting a licensing market--and especially where the copyright holder has actually succeeded in doing so--"it is appropriate that potential licensing revenues for photocopying be considered in a fair use analysis." *American Geophysical*, 60 F.3d at 930. Only "traditional, reasonable, or likely to be developed markets" are to be considered in this connection, and even the availability of an existing system for collecting licensing fees will not be conclusive. *Id.* at 930-31. [FN4] But Congress has implicitly suggested that licensing fees should be recognized in appropriate cases as part of the potential market for or value of the copyrighted work, and it was primarily because of lost licensing revenue that the Second Circuit agreed with

the finding of the district court in *American Geophysical* that "the publishers have demonstrated a substantial harm to the value of their copyrights through [Texaco's] copying." *Id.* at 931 (quoting the district court opinion (Pierre N. Leval, J.) reported at 802 F.Supp. 1, 21 (S.D.N.Y.1992)).

FN4. Although not conclusive, the existence of an established license fee system is highly relevant:

"[I]t is sensible that a particular unauthorized use should be considered 'more fair' when there is no ready market or means to pay for the use, while such an unauthorized use should be considered 'less fair' when there is a ready market or means to pay for the use. The vice of circular reasoning arises only if the availability of payment is conclusive against fair use." *Id.* at 931.

The approach followed by Judges Newman and Leval in the *American Geophysical* litigation is fully consistent with the Supreme Court case law. In *Harper & Row*, where there is no indication in the opinion that the challenged use caused any diminution in sales of President Ford's memoirs, the Court found harm to the market for the licensing of *1388 excerpts. The Court's reasoning--which was obviously premised on the assumption that the copyright holder was entitled to licensing fees for use of its copyrighted materials--is no more circular than that employed here. And in *Campbell*, where the Court was unwilling to conclude that the plaintiff had lost licensing revenues under the fourth statutory factor, the Court reasoned that a market for critical parody was not one "that creators of original works would in general develop or license others to develop." *Campbell*, 510 U.S. at 592, 114 S.Ct. at 1178.

The potential uses of the copyrighted works at issue in the case before us clearly include the selling of permission to reproduce portions of the works for inclusion in coursepacks--and the likelihood that publishers actually will license such reproduction is a demonstrated

fact. A licensing market already exists here, as it did not in a case on which the plaintiffs rely, *Williams & Wilkins Co. v. United States*, 203 Ct.Cl. 74, 487 F.2d 1345 (1973), *aff'd* by an equally divided Court, 420 U.S. 376, 95 S.Ct. 1344, 43 L.Ed.2d 264 (1975). Thus there is no circularity in saying, as we do say, that the potential for destruction of this market by widespread circumvention of the plaintiffs' permission fee system is enough, under the *Harper & Row* test, "to negate fair use."

Our final point with regard to the fourth statutory factor concerns the affidavits of the three professors who assigned one or more of the copyrighted works to be read by their students. The defendants make much of the proposition that these professors only assigned excerpts when they would not have required their students to purchase the entire work. But what seems significant to us is that none of these affidavits shows that the professor executing the affidavit would have refrained from assigning the copyrighted work if the position taken by the copyright holder had been sustained beforehand.

It is true that Professor Victor Lieberman, who assigned the excerpt from the Olson and Roberts book on America and Vietnam, raises questions about the workability of the permission systems of "many publishers." In 1991, Professor Lieberman avers, a Kinko's copyshop to which he had given materials for inclusion in a coursepack experienced serious delays in obtaining permissions from unnamed publishers. Professor Lieberman does not say that timely permission could not have been obtained from the publisher of the Olson and Roberts book, however, and he does not say that he would have refrained from assigning the work if the copyshop had been required to pay a permission fee for it.

It is also true that the publisher of one of the copyrighted works in question here (Public Opinion, by Walter Lippmann) would have turned down a request for permission to copy the 45-page excerpt included in a coursepack prepared to the specifications of Professor Donald Kinder. The excerpt was so large that the publisher would have preferred that

students buy the book itself, and the work was available in an inexpensive paperback edition. But Professor Kinder does not say that he would have refrained from assigning the excerpt from the Lippmann book if it could not have been included in the coursepack. Neither does he say that he would have refrained from assigning any of the other works mentioned in his affidavit had he known that the defendants would be required to pay permission fees for them.

The third professor, Michael Dawson, assigned a 95-page excerpt from the book on black politics by Nancy Weiss. Professor Dawson does not say that a license was not available from the publisher of the Weiss book, and he does not say that the license fee would have deterred him from assigning the book.

III

In the context of nontransformative uses, at least, and except insofar as they touch on the fourth factor, the other statutory factors seem considerably less important. We shall deal with them relatively briefly.

A

[6] As to "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes," 17 U.S.C. § 107(1), we have already explained our reasons for concluding*1389 that the challenged use is of a commercial nature.

The defendants argue that the copying at issue here would be considered "nonprofit educational" if done by the students or professors themselves. The defendants also note that they can profitably produce multiple copies for less than it would cost the professors or the students to make the same number of copies. Most of the copyshops with which the defendants compete have been paying permission fees, however, and we assume that these shops too can perform the copying on a more cost-effective basis than the professors or students can. This strikes us as a more significant datum than

the ability of a black market copyshop to beat the do-it-yourself cost.

As to the proposition that it would be fair use for the students or professors to make their own copies, the issue is by no means free from doubt. We need not decide this question, however, for the fact is that the copying complained of here was performed on a profit-making basis by a commercial enterprise. And "[t]he courts have ... properly rejected attempts by for-profit users to stand in the shoes of their customers making nonprofit or noncommercial uses." Patry, *Fair Use in Copyright Law*, at 420 n. 34. As the House Judiciary Committee stated in its report on the 1976 legislation,

"[I]t would not be possible for a non-profit institution, by means of contractual arrangements with a commercial copying enterprise, to authorize the enterprise to carry out copying and distribution functions that would be exempt if conducted by the non-profit institution itself." H.R.Rep. No. 1476, 94th Cong., 2d Sess. at 74 (1976), U.S.Code Cong. & Admin.News 5659, 5687-88.

It should be noted, finally, that the degree to which the challenged use has transformed the original copyrighted works--another element in the first statutory factor--is virtually indiscernible. If you make verbatim copies of 95 pages of a 316-page book, you have not transformed the 95 pages very much-- even if you juxtapose them to excerpts from other works and package everything conveniently. This kind of mechanical "transformation" bears little resemblance to the creative metamorphosis accomplished by the parodists in the Campbell case.

B

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V

We take as our text for the concluding part of this discussion of fair use Justice Stewart's well-known exposition of the correct approach to "ambiguities" (see *Sony*, 464 U.S. at 431-32, 104 S.Ct. at 783-84) in the copyright law:

"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. 'The sole interest of the United States and the primary object in conferring the monopoly,' this Court has said, 'lie in the general benefits derived by the public from the labors of authors.' ... When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of this basic purpose." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156, 95 S.Ct. 2040, 2044, 45 L.Ed.2d 84 (1975) (footnotes and citations omitted).

The defendants attach considerable weight to the assertions of numerous academic authors that they do not write primarily for money and that they want their published writings to be freely copyable. The defendants suggest that unlicensed copying will "stimulate artistic creativity for the general public good."

This suggestion would be more persuasive if the record did not demonstrate that licensing income is significant to the publishers. It is the publishers who hold the copyrights, of course--and the publishers obviously need economic incentives to publish scholarly works, even if the scholars do not need direct economic incentives to write such works.

The writings of most academic authors, it seems fair to say, lack the general appeal of works by a Walter Lippmann, for example. (Lippmann is the only non-academic author whose writings are involved in this case.) One suspects that the profitability of at least some of the other books at issue here is marginal. If publishers cannot look forward to receiving permission fees, why should they continue publishing marginally profitable books at all? And how will artistic creativity be stimulated if the diminution of economic incentives for publishers to publish academic works means that fewer academic works will be published?

The fact that a liberal photocopying policy may be favored by many academics who are

not themselves in the publishing business has little relevance in this connection. As Judge Leval observed in *American Geophysical*,

"It is not surprising that authors favor liberal photocopying; generally such authors have a far greater interest in the wide dissemination of their work than in royalties--all the more so when they have assigned their royalties to the publisher. But the authors have not risked their capital to achieve dissemination. The publishers have. Once an author has assigned her copyright, her approval or disapproval of photocopying is of no further relevance." 802 F.Supp. at 27.

In the case at bar the district court was not persuaded that the creation of new works of scholarship would be stimulated by depriving publishers of the revenue stream derived from the sale of permissions. Neither are we. On the contrary, it seems to us, the destruction of this revenue stream can only have a deleterious effect upon the incentive to publish academic writings.

*1392 VI

[9] The district court's conclusion that the infringement was willful is somewhat more problematic, in our view. The Copyright Act allows the collection of statutory damages of between \$500 and \$20,000 for each work infringed. 17 U.S.C. § 504(c)(1). Where the copyright holder establishes that the infringement is willful, the court may increase the award to not more than \$100,000. 17 U.S.C. § 504(c)(2). If the court finds that the infringement was innocent, on the other hand, the court may reduce the damages to not less than \$200. *Id.* Here the district court awarded \$5,000 per work infringed, characterizing the amount of the award as "a strong admonition from this court." 855 F.Supp. at 913.

Willfulness, under this statutory scheme, has a rather specialized meaning. As Professor Nimmer explains,

"In other contexts ['willfulness'] might simply mean an intent to copy, without necessarily an intent to infringe. It seems clear that as here used, 'willfully' means with knowledge

that the defendant's conduct constitutes copyright infringement. Otherwise, there would be no point in providing specially for the reduction of minimum awards in the case of innocent infringement, because any infringement that was nonwillful would necessarily be innocent. This seems to mean, then, that one who has been notified that his conduct constitutes copyright infringement, but who reasonably and in good faith believes the contrary, is not 'willful' for these purposes." Melville B. Nimmer & David Nimmer, 3 Nimmer on Copyright § 14.04[B] [3] (1996).

The plaintiffs do not contest the good faith of Mr. Smith's belief that his conduct constituted fair use; only the reasonableness of that belief is challenged. "Reasonableness," in the present context, is essentially a question of law. The facts of the instant case are not in dispute, and the issue is whether the copyright law supported the plaintiffs' position so clearly that the defendants must be deemed as a matter of law to have exhibited a reckless disregard of the plaintiffs' property rights. We review this issue *de novo*.

Fair use is one of the most unsettled areas of the law. The doctrine has been said to be "so flexible as virtually to defy definition." *Time Inc. v. Bernard Geis Assoc.*, 293 F.Supp. 130, 144 (S.D.N.Y.1968). The potential for reasonable disagreement here is illustrated by the forcefully argued dissents and the now-vacated panel opinion. In the circumstances of this case, we cannot say that the defendants' belief that their copying constituted fair use was so unreasonable as to bespeak willfulness. Accordingly, we shall remand the case for reconsideration of the statutory damages to be awarded.

..

VIII

The grant of summary judgment on the fair use issue is **AFFIRMED**. The award of damages is **VACATED**, and the case is **REMANDED** for reconsideration of damages and for entry of a separate judgment not inconsistent with this opinion.

BOYCE F. MARTIN, Jr., Chief Judge, dissenting.

This case presents for me one of the more obvious examples of how laudable societal objectives, recognized by both the Constitution and statute, have been thwarted by a decided lack of judicial prudence. Copyright protection as embodied in the Copyright Act of 1976 is intended as a public service to both the creator and the consumer of published works. Although the Act grants to individuals limited control over their original works, it was drafted to stimulate the production of those original works for the benefit of the whole nation. The fair use doctrine, which requires unlimited public access to published works in educational settings, is one of the essential checks on the otherwise exclusive property rights given to copyright holders under the Copyright Act.

Ironically, the majority's rigid statutory construction of the Copyright Act grants publishers the kind of power that Article I, Section 8 of the Constitution is designed to guard against. The Copyright Clause grants Congress the power to create copyright interests that are limited in scope. Consequently, the Copyright Act adopted the fair use doctrine to protect society's vested interest in the sharing of ideas and information against pursuits of illegitimate or excessive private proprietary claims. While it may seem unjust that publishers must share, in certain situations, their work- product with others, free of charge, that is not some "unforeseen byproduct of a statutory scheme;" rather, it is the "essence of copyright" and a "constitutional requirement." *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 349, 111 S.Ct. 1282, 1290, 113 L.Ed.2d 358 (1991).

Michigan Document Services provided a service to the University of Michigan that promoted scholarship and higher education. Michigan Document Services was paid for its services; however, that fact does not obviate a fair use claim under these facts. Requiring Michigan Document Services to pay permission fees in this instance is

inconsistent with the primary mission of the Copyright Act. The individual rights granted by the Act are subservient to the Act's primary objective, which is the promotion of creativity generally. We must therefore consider the fair use provision of Section 107 of the Act in light of the sum total of public benefits intended by copyright law. In this instance, there is no adverse economic impact on Princeton University Press that can outweigh the benefits provided by Michigan Document Services. Indeed, to presume adverse economic impact, as has the majority, is to presume that the \$50,000 in fees currently earned by plaintiff is mandated by the Act in every instance--something I hesitate to presume.

That the majority lends significance to the identity of the person operating the photocopier is a profound indication that its approach is misguided. Given the focus of the Copyright Act, the only practical difference between this case and that of a student making his or her own copies is that commercial photocopying is faster and more cost-effective. Censuring incidental private sector profit reflects little of the essence of copyright law. Would the majority require permission fees of the Professor's teaching assistant who at times must copy, at the Professor's behest, copyrighted materials for dissemination to a class, merely because such assistant is paid an hourly wage by the Professor for this work?

The majority's strict reading of the fair use doctrine promises to hinder scholastic progress nationwide. By charging permission fees on this kind of job, publishers will pass on expenses to colleges and universities that will, of course, pass such fees on to ***1394** students. Students may also be harmed if added expenses and delays cause professors to opt against creating such specialized anthologies for their courses. Even if professors attempt to reproduce the benefits of such a customized education, the added textbook cost to students is likely to be prohibitive.

The Copyright Act does not suggest such a result. Rather, the fair use doctrine contemplates the creation and free flow of information; the unhindered flow of such information through, among other things, education in turn spawns the creation and free flow of new information.

In limiting the right to copy published works in the Copyright Act, Congress created an exception for cases like the one before us. When I was in school, you bought your books and you went to the library for supplemental information. To record this supplemental information, in order to learn and benefit from it, you wrote it out long-hand or typed out what you needed--not easy, but effective. Today, with the help of free enterprise and technology, this fundamental means of obtaining information for study has been made easier. Students may now routinely acquire inexpensive copies of the information they need without all of the hassle. The trend of an instructor giving information to a copying service to make a single set of copies for each student for a small fee is just a modern approach to the classic process of education. To otherwise enforce this statute is nonsensical. I therefore dissent.

MERRITT, Circuit Judge, dissenting.

The copying done in this case is permissible under the plain language of the copyright statute that allows "multiple copies for classroom use:" "[T]he fair use of a copyrighted work ... for purposes such as ... teaching (including multiple copies for classroom use), ... is not an infringement of copyright." 17 U.S.C. § 107 (emphasis added). Also, the injunction the Court has upheld exceeds the protections provided by the Copyright Act of 1976 regardless of whether the use was a fair use and is so grossly overbroad that it violates the First Amendment.

I.

This is a case of first impression with broad consequences. Neither the Supreme Court nor any other court of appeals has interpreted

the exception allowing "multiple copies for classroom use" found in § 107 of the copyright statute. There is no legal precedent and no legal history that supports our Court's reading of this phrase in a way that outlaws the widespread practice of copying for classroom use by teachers and students.

For academic institutions, the practical consequences of the Court's decision in this case are highly unsatisfactory, to say the least. Anyone who makes multiple copies for classroom use for a fee is guilty of copyright infringement unless the portion copied is just a few paragraphs long. Chapters from a book or articles from a journal are verboten. No longer may Kinko's and other corner copyshops, or school bookstores, libraries and student-run booths and kiosks copy anything for a fee except a small passage. I do not see why we should so construe plain statutory language that on its face permits "multiple copies for classroom use." The custom of making copies for classroom use for a fee began during my college and law school days forty years ago and is now well-established. I see no justification for overturning this long-established practice.

I disagree with the Court's method of analyzing and explaining the statutory language of § 107 providing a fair use exception. [FN1] Except for "teaching," the statute is cast in ***1395** general, abstract language that allows fair use for "criticism," "comment," "news reporting" and "research." The scope or extent of copying allowed for these uses is left undefined. Not so for "teaching." This purpose, and this purpose alone, is immediately followed by a definition. The definition allows "multiple copies for classroom use" of copyrighted material. The four factors to be considered, e.g., market effect and the portion of the work used, are of limited assistance when the teaching use at issue fits squarely within the specific language of the statute, i.e., "multiple copies for classroom use." In the present case that is all we have--"multiple copies for classroom use."

FN1. Both the majority opinion and Judge Ryan's dissent approach the

determination of whether the use at issue here is infringing solely by use of the four statutory factors set out in § 107. Neither the plain language of the statute nor the case law requires that determination to be made solely on the narrow grounds of those four factors. Because the plain language of the statute is clear concerning "multiple copies for classroom use" and because determinations of infringement are to be made on a case-by-case basis taking into consideration the reasonableness of the copying from an equitable perspective, I do not believe that the four factors are controlling. The specific plain language should be given much more weight in this case than the four abstract considerations of little relevance to copying for classroom use.

There is nothing in the statute that distinguishes between copies made for students by a third person who charges a fee for their labor and copies made by students themselves who pay a fee only for use of the copy machine. Our political economy generally encourages the division and specialization of labor. There is no reason why in this instance the law should discourage high schools, colleges, students and professors from hiring the labor of others to make their copies any more than there is a reason to discourage lawyers from hiring paralegals to make copies for clients and courts. The Court's distinction in this case based on the division of labor--who does the copying--is short sighted and unsound economically.

Our Court cites no authority for the proposition that the intervention of the copyshop changes the outcome of the case. The Court errs by focusing on the "use" of the materials made by the copyshop in making the copies rather than upon the real user of the materials--the students. Neither the District Court nor our Court provides a rationale as to why the copyshops cannot "stand in the shoes" of their customers in

making copies for noncommercial, educational purposes where the copying would be fair use if undertaken by the professor or the student personally.

....

Turning to the effect of the use upon the potential market for or value of the copyrighted work, plaintiffs here have failed to demonstrate that the photocopying done by defendant has caused even marginal economic harm to their publishing business. As the Court concedes, the publishers would prefer that students purchase the publications containing the excerpts instead of receiving photocopies of excerpts from the publications. See Maj. op. at 1387 ("the publisher would have preferred that students buy the book itself") (emphasis added). What the publishers would "prefer" is not part of the analysis to determine the effect on the potential market. We are to examine what the facts tell us about the market effect. The facts demonstrate that it is only wishful thinking on the part of the publishers that the professors who assigned the works in question would have directed their students to purchase the entire work if the excerpted portions were unavailable for copying. The excerpts copied were a small percentage of the total work, and, as the professors testified, it seems more likely that they would have omitted the work altogether instead of requiring the students to purchase the entire work.

The use complained of by plaintiffs here has been widespread for many years and the publishers have not been able to demonstrate any significant harm to the market for the original works during that time. The publishing industry tried to persuade Congress in 1976 to ban the type of copying done by defendant here. Congress declined to do so and the publishing industry has been trying ever since to work around the language of the statute to expand its rights.

It is also wrong to measure the amount of economic harm to the publishers by loss of a presumed license fee--a criterion that

assumes that the publishers have the right to collect such fees in all cases where the user copies any portion of published works. The majority opinion approves of this approach by affirming the issuance of an injunction prohibiting defendant from copying any portion *1397 of plaintiffs' works. It does so without requiring a case-by-case determination of infringement as mandated by the Supreme Court. See discussion *infra* at 1385-86.

The publishers have no right to such a license fee. Simply because the publishers have managed to make licensing fees a significant source of income from copyshops and other users of their works does not make the income from the licensing a factor on which we must rely in our analysis. If the publishers have no right to the fee in many of the instances in which they are collecting it, we should not validate that practice by now using the income derived from it to justify further imposition of fees. Our job is simply to determine whether the use here falls within the § 107 exception for "multiple copies for classroom use." If it does, the publisher cannot look to us to force the copyshop to pay a fee for the copying.

The Court states that defendant has declined to pay "agreed royalties" to the holders of the copyrights. Maj. op. at 1385. Agreed to by whom? Defendant has not "agreed" to pay the publishers anything. It is fair to label a royalty as "agreed to" only when the publisher has appropriately negotiated a fee with the copyshop for use of the copy in question.

III.

The injunction upheld by the Court, as it stands now, extends the rights of the copyright owners far beyond the limits prescribed by Congress. [FN2] It prohibits defendant from copying any excerpts from plaintiffs' materials, both those now in existence and any that may be published by plaintiffs in the future, regardless of whether the entire work is appropriately protected by copyright or whether the copying is for classroom use or is otherwise a fair use. The injunction prohibits defendant from copying

from copyrighted works of the plaintiffs, without regard to length, content or purpose of the copying and without any recognition that the doctrine of fair use exists. The injunction avoids the necessity of determining whether the copying is an infringement or a fair use--any copying and dissemination is forbidden. The injunction also protects future publications of plaintiffs--works that have not yet even been created--without any knowledge as to the level of copyright protection the works would normally be afforded.

FN2. Although the majority has modified its original draft of the opinion to order a remand directing the district court (1) to set out the injunction in a separate order as required by Federal Rule of Civil Procedure 65 and (2) to set forth "more precisely" the scope of the injunction, the remand instruction gives virtually no guidance to the district court about curing the overbreadth of the injunction.

The gross overbreadth of the injunction appears to violate the First Amendment. The purpose of the First Amendment is to facilitate the widest possible dissemination of information. "From a first amendment viewpoint, the effect of an injunction is to restrain the infringing expression altogether--an effect which goes beyond what is necessary to secure the copyright property." Goldstein, Copyright and the First Amendment, 70 Colum. L.Rev. 983, 1030 (1970); see also *New Era Pubs. Int'l, ApS v. Henry Holt and Co.*, 873 F.2d 576, 595-97 (2d Cir.1989) (Oakes, J., concurring), cert. denied, 493 U.S. 1094, 110 S.Ct. 1168, 107 L.Ed.2d 1071 (1990) (discussing tension between First Amendment and injunctions in copyright cases); 3 Nimmer § 14.06[B] at 14-56.2 (where public harm would result from the injunction, courts should award damages in lieu of injunction).

In sum, the injunction imposed here--an injunction that provides blanket copyright protection for all the works of a given publisher without regard to the limitations on copyright protection--is overbroad. The injunction is

inappropriate because it prohibits the public from using defendant's copyshop for noninfringing copying of plaintiffs' works.

RYAN, Circuit Judge, dissenting.

....

It is consistent with the copyright scheme to find the use of these coursepacks to be noncommercial, to presume that they do not inflict market harm, and to require the publishers to prove that MDS's use is harmful to the value of the copyrighted works. Presuming that MDS's copying is not harmful to the value of the copyrighted works is appropriate because the identity and content of the excerpts is controlled entirely by persons whose motives are purely educational. Only where the use of copyrighted materials is directed by those seeking financial gain from the substance-based selection is it appropriate to presume that the secondary user is capturing profits that the creators of the works expected to capture and that may be important to maintaining incentives to create new original works. Similarly, the secondary product is appropriately viewed with suspicion--and presumed to upset the creator's incentives--when the party driving the use is primarily seeking to profit from its selections; where the selector acts in order to enrich his own coffers, it is less likely that society will benefit from his actions more than it will suffer from the resulting disincentives to create new works.

With regard to the professor-directed creation of coursepacks, it is not appropriate to presume that the practice of excerpting some materials harms the authors' rightful market and secures a benefit only to the excerpters. The more reasonable presumption is that society benefits from the additional circulation of ideas in the educational setting when those who direct the practice have no personal financial interests that would drive them to copy beyond the parameters of purely educational, and fair, use. The professors have no financial reason to copy mere excerpts when the entire works should be assigned, and their selections should not be presumed to harm the market for the original

works and lessen the incentives for authors to write or publishers to publish new works. Rather, such harm must be demonstrated. Society benefits when professors provide diverse materials that are not central to the course but that may enrich or broaden the base of knowledge of the students. Society is not benefitted by establishing a presumption that discourages professors from exposing their students to anything but complete original works even when most of the work is irrelevant to the pedagogical purposes, and students are not benefitted or authors/publishers justly compensated if students are required to purchase entire works in order to read the 5% or 30% of the work that is relevant to the course.

And so, in my view, the majority's market harm analysis is fatally flawed: If market harm is presumed when excerpts are selected by professors and market harm is proven when fees are not paid, we have ceded benefits entirely to copyright holders when we are actually required to engage in "a sensitive balancing of interests," *Sony*, 464 U.S. at 455 n. 40, 104 S.Ct. at 795 n. 40, between "the interests of authors ... in the control and exploitation of their writings ... on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand." *Id.* at 429, 104 S.Ct. at 782. The majority apparently does not really accept the firmly established principle that copyright monopoly privileges "are neither unlimited nor primarily designed to provide a special private benefit[; rather, the privileges exist to achieve] an important public purpose ... to motivate the creative activity of authors [and] to give the public appropriate access to their work product." *Id.*

...

I have concluded that analysis under the first factor establishes the character of the use of coursepacks as noncommercial, and that, therefore, a proper analysis under the fourth factor begins with a rebuttable presumption that the plaintiffs have suffered no market harm and thus have the burden of proof on market effect. See part III.A.ii., *supra*. But, even in the absence of a presumption against market

effect, the fourth factor, correctly construed, weighs in favor of a finding of fair use on the record before us.

For plaintiffs to prevail, there must be at least a meaningful likelihood that future harm to a potential market for the copyrighted works will occur. In *Sony*, the Court held:

A challenge to a noncommercial use of a copyrighted work requires proof either that the particular use is harmful, or that if it should become widespread, it would adversely affect the potential market for the copyrighted work.... What is necessary is a showing by a preponderance of the evidence that some meaningful likelihood of future harm exists.

Sony, 464 U.S. at 450-51, 104 S.Ct. at 792-93. Works or uses that creators of original works would "in general develop or license others to develop" make up the market for potential derivative uses. *Campbell*, 510 U.S. at 592, 114 S.Ct. at 1178. The plaintiffs certainly have not demonstrated that the coursepacks affected the market for the original copyrighted works. Neither have they presented any evidence of likely harm to their potential market for derivative works, such as published anthologies. Remarkably, they have limited their showing of "market effect" to the loss of permission fees that they would like to receive from copyshops like MDS. But that is not a "market harm" within the meaning of section 107(4). To prove entitlement to permission fees, the publishers must show market harm and the market harm they claim is the loss of permission fees. MDS's coursepacks would inflict "market harm" if they damaged the value of the original work or the value of derivative products such as coursepacks the publishers might wish to market.

The original panel opinion, now vacated, stated:

[E]vidence of lost permission fees does not bear on market effect. The right to permission fees is precisely what is at issue here. It is circular to argue that a use is unfair, and a fee therefore required, on the basis that the publisher is otherwise deprived of a fee.

Princeton Univ. Press v. Michigan Document Services, No. 94-1778, 1996 WL 54741, at *11 (6th Cir. Feb.12, 1996), reh'g granted, 74 F.3d 1528 (6th Cir.1996). The majority now claims that this charge of circular reasoning "proves too much." The majority asks the reader to

[i]magine that the defendants set up a printing press and made exact reproductions--asserting that such reproductions constituted "fair use"--of a book to which they did not hold the copyright. Under the defendants' logic it would be circular for the copyright holder to argue market harm because of lost copyright revenues, since this would assume that the copyright holder had a right to such revenues.

Maj. op. at 1386.

The majority's logic would always yield a conclusion that the market had been harmed because any fees that a copyright holder could extract from a user if the use were found to be unfair would be "lost" if the use were instead found to be "fair use." The majority acknowledges that "a copyright owner will normally be able to complain that an asserted fair use may cause some loss of revenues in potential licensing fees" but resolves this problem by restricting its consideration of the loss of permission fees to the case of derivative markets that are "traditional, reasonable, or likely to be developed markets." " Maj. op. at 1387 (quoting *American Geophysical Union v. Texaco*, 60 F.3d 913, 930-31 (2d Cir.), cert. dismissed, --- U.S. ---, 116 S.Ct. 594, 133 L.Ed.2d 514 *1408 (1995)). Under this approach, the majority would find that the copyright holders' monopoly over potential uses of the copyrighted works at issue in *Princeton* includes "the selling of permission to reproduce portions of the works for inclusion in coursepacks--and the likelihood that publishers actually will license such reproduction is a demonstrated fact." Maj. op. at 1387.

The majority cites *Harper & Row* and *Campbell* as support for its reasoning that the mere loss of licensing fees--to which the

copyright holder may or may not be entitled--is proof of market harm. The majority notes that in *Harper & Row*, the plaintiff did not challenge a use (the unauthorized article's direct quotes) based on its impact on sales of the entire work (the not-yet-published memoirs) but based on its harm to the market for the licensing of excerpts. There is a subtle but important distinction to be made between the facts in *Harper & Row* and the facts in this case. In *Harper & Row* there was proof that the copyright holder conceived of a potential derivative work (the planned *Time Magazine* articles) and took meaningful steps to aid in the creation of that derivative work and to capture profits from that creation. The value of the planned derivative work was harmed by the defendants' unauthorized use of the original work; the copyright holder lost its contract with *Time Magazine*--and concomitant fees--for the exclusive right to print prepublication excerpts of President Ford's memoirs when *The Nation Magazine* illicitly obtained a copy of the unpublished manuscript and produced a short article quoting from the heart of the manuscript. Thus, in *Harper & Row*, the value of the original work in a derivative market that was targeted by the copyright holder was harmed by the unauthorized use of the work. There is no similar evidence of injury to the value of a work in this case.

First, there is no evidence that the publishers, here, planned to create any products for a derivative market; no evidence, for instance, that the copyright holders sought to publish or license a competing compilation of excerpts to attract the interest, for instance, of the students in Professor Dawson's interdisciplinary course "Black Americans and the Political System." Second, even if there was evidence that the publishers had contemplated such a product, there is no evidence that the publishers' derivative compilation would be devalued by defendant's production of coursepacks; that is, there is no evidence that such a compilation would earn less because of the existence of coursepacks. In *Campbell*, 510 U.S. at 591-96, 114 S.Ct. at 1178-79, for instance, the Court declined to find market harm based

solely on undisputed evidence that the unauthorized user created a profitable product--rap-parody-- from the original; the Court noted that the rap-parody version was not shown to affect the market for an authorized, non-parodic rap version of the original. It might at first appear that the publishers are, by definition, able to design and market a collection of excerpts and that the existence of other, unauthorized, collections will necessarily replace some of the authorized copies and thereby leach profits that the publishers could otherwise capture. However, neither the facts on this record nor any case law support such a leap in logic.

The fact is that the plaintiffs are not able to create a market for the product that MDS produces. To the extent that MDS serves a market at all, it is one created by the individual professors who have determined which excerpts from which writers they wish to comprise the required reading for a particular course. If the publishers decided to create an anthology of excerpts from its copyrighted works on, for example, "The Black Experience," it would not fill the market niche created by Professor X who is interested in very different materials. Indeed, the publishers do not claim to have lost an account for customized materials with a specific professor because of a copyshop coursepack; nor do they claim to be prepared to enter this highly- customized market. The argument that the publishers seek to enter the derivative market of customized materials by licensing MDS and other copyshops, who create such compilations, and that MDS's publication of unauthorized compilations interferes with their ability to obtain licensing fees from other copyshops simply returns the publishers to their original circular argument *1409 that they are entitled to permission fees, in part, because they are losing permission fees.

..

F.

The majority opinion stresses the fact that Congress "initiated and supervised negotiations among interested groups--groups

that included authors, publishers, and educators--over specific legislative language [and that m]ost of the language that emerged was enacted into law or was made a part of the committee reports." Maj. op. at 1390. However, what were not "enacted into law," but only made a part of the conference committee reports, are the Classroom Guidelines upon which the majority so heavily relies to decide how the language enacted into law applies. Indisputably, the Classroom Guidelines assure educators that nonprofit copying *1411 for educational purposes of "not more than 1,000 words" is fair use when "[t]he inspiration and decision to use the work and the moment of its use for maximum teaching effectiveness are so close in time that it would be unreasonable to expect a timely reply to a request for permission." H.R. REP. NO. 1476 at 68-71. The Classroom Guidelines "prohibit [] ... [c]opying ... used to create ... anthologies, compilations or collective works." H.R. REP. NO. 1476 at 69. But, as the majority opinion acknowledges, that language did not survive congressional debate and was not enacted into law.

Despite the well-settled rule that legislative history is irrelevant and inappropriate to consider except to clarify an ambiguity in the text of a statute, the majority relies upon the legislative history without identifying any ambiguity in the statute, but only because "[t]he statutory factors are not models of clarity, ... the fair use issue has long been a particularly troublesome one ..., [and other] courts have often turned to the legislative history when considering fair use questions." Maj. op. at 1390. I wish to emphasize in the strongest terms that it is entirely inappropriate to rely on the Copyright Act's legislative history at all.

As Justice Scalia has observed, "The greatest defect of legislative history is its illegitimacy. We are governed by laws, not by the intentions of legislators." *Conroy v. Aniskoff, Jr.*, 507 U.S. 511, 519, 113 S.Ct. 1562, 1567, 123 L.Ed.2d 229 (1993) (Scalia, J., concurring). The Classroom Guidelines do not become more authoritative by their adoption into a Committee Report. "[I]t is the

statute, and not the Committee Report, which is the authoritative expression of the law." *City of Chicago v. Environmental Defense Fund*, 511 U.S. 328, ---, 114 S.Ct. 1588, 1593, 128 L.Ed.2d 302 (1994). We may not permit the statutory text enacted by both Houses of Congress and signed by the President "to be expanded or contracted by the statements of individual legislators or committees during the course of the enactment process." *West Virginia Univ. Hosps., Inc. v. Casey*, 499 U.S. 83, 98-99, 111 S.Ct. 1138, 1147, 113 L.Ed.2d 68 (1991). That the Classroom Guidelines are not law should be reason enough for this court to refrain from using them to find infringement, but this is not the only reason to reject out of hand arguments based on legislative history. Committee Reports are unreliable "as a genuine indicator of congressional intent" and "as a safe predictor of judicial construction." *Wisconsin Pub. Intervenor v. Mortier*, 501 U.S. 597, 617, 111 S.Ct. 2476, 2488, 115 L.Ed.2d 532 (1991) (Scalia, J., concurring). Committee Reports do not accurately indicate congressional intent because they do not "necessarily say anything about what Congress as a whole thought," even if all the members of the Committee "actually adverted to the interpretive point at issue ... [and] were in unanimous agreement on the point." *Id.* at 620, 111 S.Ct. at 2489. The members of Congress who voted for the statutory language of section 107 could have had any variety of understandings about the application of the fair use factors; all we know for certain is that the full House, the full Senate, and the President, pursuant to the procedures prescribed by the Constitution, enacted into law the text of section 107, and did not enact the standards of the Classroom Guidelines. *Id.* at 621, 111 S.Ct. at 2490. Committee Reports do not reliably further consistent judicial construction. I subscribe wholeheartedly to Judge Harold Leventhal's observation that "the use of legislative history [is] the equivalent of entering a crowded cocktail party and looking over the heads of the guests for one's friends." *Conroy*, 507 U.S. at 519, 113 S.Ct. at 1567 (Scalia, J., concurring). "We use [Committee Reports] when it is convenient, and ignore them when it

is not." Mortier, 501 U.S. at 617, 111 S.Ct. at 2488.

...

The case for copyright infringement is very weak indeed if the court must rely on the unenacted theater of Committee Reports to find infringement. The fact that Congress saw fit, very likely in the interests of political expediency, to pay unusual deference to the "agreement" of interested parties about what they would like the law to be, even to the point of declaring (but not in the statute) that the parties' agreement was part of the committee's "understanding" of fair use, does not affect the rule of construction that binds this court.

In sum, even if the four statutory factors of section 107 are not "models of clarity" and their application to the facts of this case is "troublesome"--a challenge of the kind federal appellate judges are paid to face every day--the four factors are not ambiguous. Therefore, we may not properly resort to legislative history. I am satisfied to rely exclusively upon the evidence and lack of evidence on the record before us and the plain language of the Copyright Act and its construction in the case law; and they lead me to conclude that MDS's compilation into coursepacks of excerpts selected by professors is a "fair use" of the copyrighted materials.

IV.

For all the foregoing reasons, I conclude that MDS did not infringe upon the copyrights of the publishers.

Fair Use -- Decompilation

977 F.2d 1510
61 USLW 2254,
1992 Copr.L.Dec. P 27,001,
24 U.S.P.Q.2d 1561

(Cite as: 977 F.2d 1510)

**SEGA ENTERPRISES LTD., a Japanese
corporation, Plaintiff-Appellee,**

v.

**ACCOLADE, INC., a California
corporation, Defendant-Appellant.**

No. 92-15655.

United States Court of Appeals,
Ninth Circuit.

Argued and Submitted July 20, 1992.

Decided Oct. 20, 1992.

As Amended Jan. 6, 1993.

Appeal from the United States District Court
for the Northern District of California.

Before: CANBY, REINHARDT, and LEAVY,
Circuit Judges.

REINHARDT, Circuit Judge:

This case presents several difficult questions of first impression involving our copyright and trademark laws. [FN1] We are asked ***1514** to determine, first, whether the Copyright Act permits persons who are neither copyright holders nor licensees to disassemble a copyrighted computer program in order to gain an understanding of the unprotected functional elements of the program. In light of the public policies underlying the Act, we conclude that, when the person seeking the understanding has a legitimate reason for doing so and when no other means of access to the unprotected elements exists, such disassembly is as a matter of law a fair use of the copyrighted work. Second, we must decide the legal consequences under the Lanham Trademark Act of a computer manufacturer's use of a security system that affords access to its computers to software cartridges that include an initialization code which triggers a screen display of the computer manufacturer's trademark. The computer manufacturer also manufactures software cartridges; those cartridges all contain the initialization code. The question is whether the computer manufacturer may enjoin competing cartridge manufacturers from gaining access to its computers through the use of the code on the ground that such use will result in the display of a "false" trademark. Again, our holding is based on the public policies underlying the statute. We hold that when there is no other method of access to the computer that is known or readily available to rival cartridge manufacturers, the use of the initialization code by a rival does not violate the Act even though that use triggers a misleading trademark display. Accordingly, we reverse the district court's grant of a

preliminary injunction in favor of plaintiff-appellee Sega Enterprises, Ltd. on its claims of copyright and trademark infringement. We decline, however, to order that an injunction pendente lite issue precluding Sega from continuing to use its security system, even though such use may result in a certain amount of false labeling. We prefer to leave the decision on that question to the district court initially.

FN1. The recent decision by the Federal Circuit in *Atari Games Corp. v. Nintendo of America, Inc.*, 975 F.2d 832 (Fed.Cir.1992), which discusses a number of the issues we decide here, is consistent both with our analysis and the result we reach.

I. Background

Plaintiff-appellee Sega Enterprises, Ltd. ("Sega"), a Japanese corporation, and its subsidiary, Sega of America, develop and market video entertainment systems, including the "Genesis" console (distributed in Asia under the name "Mega-Drive") and video game cartridges. Defendant-appellant Accolade, Inc., is an independent developer, manufacturer, and marketer of computer entertainment software, including game cartridges that are compatible with the Genesis console, as well as game cartridges that are compatible with other computer systems.

Sega licenses its copyrighted computer code and its "SEGA" trademark to a number of independent developers of computer game software. Those licensees develop and sell Genesis-compatible video games in competition with Sega. Accolade is not and never has been a licensee of Sega. Prior to rendering its own games compatible with the Genesis console, Accolade explored the possibility of entering into a licensing agreement with Sega, but abandoned the effort because the agreement would have required that Sega be the exclusive manufacturer of all games produced by Accolade.

Accolade used a two-step process to render its video games compatible with the Genesis console. First, it "reverse engineered" Sega's video game programs in order to discover the requirements for compatibility with the Genesis console. As part of the reverse engineering process, Accolade transformed the machine-readable object code contained in commercially available copies of Sega's game cartridges into human-readable source code using a process called "disassembly" or "decompilation". [FN2] Accolade purchased a Genesis *1515 console and three Sega game cartridges, wired a decompiler into the console circuitry, and generated printouts of the resulting source code. Accolade engineers studied and annotated the printouts in order to identify areas of commonality among the three game programs. They then loaded the disassembled code back into a computer, and experimented to discover the interface specifications for the Genesis console by modifying the programs and studying the results. At the end of the reverse engineering process, Accolade created a development manual that incorporated the information it had discovered about the requirements for a Genesis-compatible game. According to the Accolade employees who created the manual, the manual contained only functional descriptions of the interface requirements and did not include any of Sega's code.

FN2. Computer programs are written in specialized alphanumeric languages, or "source code". In order to operate a computer, source code must be translated into computer readable form, or "object code". Object code uses only two symbols, 0 and 1, in combinations which represent the alphanumeric characters of the source code. A program written in source code is translated into object code using a computer program called an "assembler" or "compiler", and then imprinted onto a silicon chip for commercial distribution. Devices called "disassemblers" or "decompilers" can reverse this

process by "reading" the electronic signals for "0" and "1" that are produced while the program is being run, storing the resulting object code in computer memory, and translating the object code into source code. Both assembly and disassembly devices are commercially available, and both types of devices are widely used within the software industry.

In the second stage, Accolade created its own games for the Genesis. According to Accolade, at this stage it did not copy Sega's programs, but relied only on the information concerning interface specifications for the Genesis that was contained in its development manual. Accolade maintains that with the exception of the interface specifications, none of the code in its own games is derived in any way from its examination of Sega's code. In 1990, Accolade released "Ishido", a game which it had originally developed and released for use with the Macintosh and IBM personal computer systems, for use with the Genesis console.

Even before Accolade began to reverse engineer Sega's games, Sega had grown concerned about the rise of software and hardware piracy in Taiwan and other Southeast Asian countries to which it exported its products. Taiwan is not a signatory to the Berne Convention and does not recognize foreign copyrights. Taiwan does allow prosecution of trademark counterfeiters. However, the counterfeiters had discovered how to modify Sega's game programs to blank out the screen display of Sega's trademark before repackaging and reselling the games as their own. Accordingly, Sega began to explore methods of protecting its trademark rights in the Genesis and Genesis-compatible games. While the development of its own trademark security system (TMSS) was pending, Sega licensed a patented TMSS for use with the Genesis home entertainment system.

The most recent version of the Genesis console, the "Genesis III", incorporates the

licensed TMSS. When a game cartridge is inserted, the microprocessor contained in the Genesis III searches the game program for four bytes of data consisting of the letters "S-E-G-A" (the "TMSS initialization code"). If the Genesis III finds the TMSS initialization code in the right location, the game is rendered compatible and will operate on the console. In such case, the TMSS initialization code then prompts a visual display for approximately three seconds which reads "PRODUCED BY OR UNDER LICENSE FROM SEGA ENTERPRISES LTD" (the "Sega Message"). All of Sega's game cartridges, including those disassembled by Accolade, contain the TMSS initialization code.

Accolade learned of the impending release of the Genesis III in the United States in January, 1991, when the Genesis III was displayed at a consumer electronics show. When a demonstration at the consumer electronics show revealed that Accolade's "Ishido" game cartridges would not operate on the Genesis III, Accolade returned to the drawing board. During the reverse engineering process, Accolade engineers had discovered a small segment of code--the TMSS initialization code--that was included in the "power-up" sequence of every Sega game, but that had no identifiable function. The games would operate on the original Genesis console even if the code segment was removed. Mike Lorenzen, *1516 the Accolade engineer with primary responsibility for reverse engineering the interface procedures for the Genesis console, sent a memo regarding the code segment to Alan Miller, his supervisor and the current president of Accolade, in which he noted that "it is possible that some future Sega peripheral device might require it for proper initialization."

In the second round of reverse engineering, Accolade engineers focused on the code segment identified by Lorenzen. After further study, Accolade added the code to its development manual in the form of a standard header file to be used in all games. The file contains approximately twenty to twenty-five bytes of data. Each of Accolade's games contains a total of 500,000 to 1,500,000 bytes. According to Accolade employees, the header

file is the only portion of Sega's code that Accolade copied into its own game programs.

In 1991, Accolade released five more games for use with the Genesis III, "Star Control", "Hardball!", "Onslaught", "Turrican", and "Mike Ditka Power Football." With the exception of "Mike Ditka Power Football", all of those games, like "Ishido", had originally been developed and marketed for use with other hardware systems. All contained the standard header file that included the TMSS initialization code. According to Accolade, it did not learn until after the Genesis III was released on the market in September, 1991, that in addition to enabling its software to operate on the Genesis III, the header file caused the display of the Sega Message. All of the games except "Onslaught" operate on the Genesis III console; apparently, the programmer who translated "Onslaught" for use with the Genesis system did not place the TMSS initialization code at the correct location in the program.

All of Accolade's Genesis-compatible games are packaged in a similar fashion. The front of the box displays Accolade's "Ballistic" trademark and states "for use with Sega Genesis and Mega Drive Systems." The back of the box contains the following statement: "Sega and Genesis are registered trademarks of Sega Enterprises, Ltd. Game 1991 Accolade, Inc. All rights reserved. Ballistic is a trademark of Accolade, Inc. Accolade, Inc. is not associated with Sega Enterprises, Ltd. All product and corporate names are trademarks and registered trademarks of their respective owners."

Sega filed suit against Accolade on October 31, 1991, alleging trademark infringement and false designation of origin in violation of sections 32(1) and 43(a) of the Lanham Act, 15 U.S.C. §§ 1114(1)(a), 1125(a). [FN3] On November 29, 1991, Sega amended its complaint to include a claim for copyright infringement. Accolade filed a counterclaim against Sega for false designation of origin under section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). [FN4] The parties filed cross-motions for preliminary injunctions on their respective claims.

FN3. The complaint also included state law claims for common law trademark infringement, dilution, unfair competition, and false or misleading statements. None of the state law claims are at issue in this appeal.

FN4. Accolade also asserted state law counterclaims for unfair competition, false or misleading statements, and intentional interference with prospective economic advantage. Again, the state law counterclaims are not at issue here.

After expedited discovery and a hearing, the district court granted Sega's motion. Prior to the hearing, Sega introduced the declaration of Takeshi Nagashima, an employee of Sega. Nagashima stated that it was possible either to create a game program which did not contain the TMSS code but would still operate on the Genesis III, or to modify a game program so that the Sega Message would not appear when the game cartridge was inserted. Nagashima stated that he had been able to make both modifications using standard components, at a total extra cost of approximately fifty cents. At the hearing, counsel for Sega produced two game cartridges which, he represented, contained the modifications made by Nagashima, and demonstrated to the district judge that the Sega Message *1517 did not appear when the cartridges were inserted into a Genesis III console. Sega offered to make the cartridges available for inspection by Accolade's counsel, but declined to let Accolade's software engineers examine the cartridges or to reveal the manner in which the cartridges had been modified. The district court concluded that the TMSS code was not functional and that Accolade could not assert a functionality defense to Sega's claim of trademark infringement.

With respect to Sega's copyright claim, the district court rejected Accolade's contention that intermediate copying of computer object code does not constitute infringement under the Copyright Act. It found that Accolade had disassembled Sega's code for a commercial

purpose, and that Sega had likely lost sales of its games as a result of Accolade's copying. The court further found that there were alternatives to disassembly that Accolade could have used in order to study the functional requirements for Genesis compatibility. Accordingly, it also rejected Accolade's fair use defense to Sega's copyright infringement claim.

Based on its conclusion that Sega is likely to succeed on the merits of its claims for copyright and trademark infringement, on April 3, 1992, the district court enjoined Accolade from: (1) disassembling Sega's copyrighted code; (2) using or modifying Sega's copyrighted code; (3) developing, manufacturing, distributing, or selling Genesis-compatible games that were created in whole or in part by means that included disassembly; and (4) manufacturing, distributing, or selling any Genesis-compatible game that prompts the Sega Message. On April 9, 1992, in response to a request from Sega, the district court modified the preliminary injunction order to require the recall of Accolade's infringing games within ten business days.

On April 14, 1992, Accolade filed a motion in the district court for a stay of the preliminary injunction pending appeal. When the district court failed to rule on the motion for a stay by April 21, ten business days after the April 9 recall order, Accolade filed a motion for an emergency stay in this court pursuant to 9th Cir.R. 27-3, together with its notice of appeal. On April 23, we stayed the April 9 recall order. The April 3 preliminary injunction order remained in effect until August 28, when we ordered it dissolved and announced that this opinion would follow.

III. Copyright Issues

Accolade raises four arguments in support of its position that disassembly of the object code in a copyrighted computer program does not constitute copyright infringement. First, it maintains that intermediate copying does not

infringe the exclusive rights granted to copyright owners in section 106 of the Copyright Act unless the end product of the copying is substantially similar to the copyrighted work. Second, it argues that disassembly of object code in order to gain an understanding of the ideas and functional concepts embodied in the code is lawful under section 102(b) of the Act, which exempts ideas and functional concepts from copyright protection. Third, it suggests that disassembly is authorized by section 117 of the Act, which entitles the lawful owner of a copy of a computer program to load the program into a computer. Finally, Accolade contends ***1518** that disassembly of object code in order to gain an understanding of the ideas and functional concepts embodied in the code is a fair use that is privileged by section 107 of the Act.

Neither the language of the Act nor the law of this circuit supports Accolade's first three arguments. Accolade's fourth argument, however, has merit. Although the question is fairly debatable, we conclude based on the policies underlying the Copyright Act that disassembly of copyrighted object code is, as a matter of law, a fair use of the copyrighted work if such disassembly provides the only means of access to those elements of the code that are not protected by copyright and the copier has a legitimate reason for seeking such access. Accordingly, we hold that Sega has failed to demonstrate a likelihood of success on the merits of its copyright claim. Because on the record before us the hardships do not tip sharply (or at all) in Sega's favor, the preliminary injunction issued in its favor must be dissolved, at least with respect to that claim.

A. Intermediate Copying

[2] We have previously held that the Copyright Act does not distinguish between unauthorized copies of a copyrighted work on the basis of what stage of the alleged infringer's work the unauthorized copies represent. *Walker v. University Books*, 602 F.2d 859, 864 (9th Cir.1979) ("[T]he fact that an allegedly infringing copy of a protected work may itself be only an inchoate

representation of some final product to be marketed commercially does not in itself negate the possibility of infringement."). Our holding in *Walker* was based on the plain language of the Act. Section 106 grants to the copyright owner the exclusive rights "to reproduce the work in copies", "to prepare derivative works based upon the copyrighted work", and to authorize the preparation of copies and derivative works. 17 U.S.C. § 106(1)-(2). Section 501 provides that "[a]nyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 ... is an infringer of the copyright." *Id.* § 501(a). On its face, that language unambiguously encompasses and proscribes "intermediate copying". *Walker*, 602 F.2d at 863-64; see also *Walt Disney Productions v. Filmation Associates*, 628 F.Supp. 871, 875-76 (C.D.Cal.1986).

In order to constitute a "copy" for purposes of the Act, the allegedly infringing work must be fixed in some tangible form, "from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." 17 U.S.C. § 101. The computer file generated by the disassembly program, the printouts of the disassembled code, and the computer files containing Accolade's modifications of the code that were generated during the reverse engineering process all satisfy that requirement. The intermediate copying done by Accolade therefore falls squarely within the category of acts that are prohibited by the statute.

Accolade points to a number of cases that it argues establish the lawfulness of intermediate copying. Most of the cases involved the alleged copying of books, scripts, or literary characters. See *v. Durang*, 711 F.2d 141 (9th Cir.1983); *Warner Bros. v. ABC*, 654 F.2d 204 (2d Cir.1981); *Miller v. Universal City Studios, Inc.*, 650 F.2d 1365 (5th Cir.1981); *Walker v. Time Life Films, Inc.*, 615 F.Supp. 430 (S.D.N.Y.1985), *aff'd*, 784 F.2d 44 (2d Cir.), *cert. denied*, 476 U.S. 1159, 106 S.Ct. 2278, 90 L.Ed.2d 721 (1986); *Davis v. United Artists, Inc.*, 547 F.Supp. 722 (S.D.N.Y.1982); *Fuld v. NBC*, 390 F.Supp.

877 (S.D.N.Y.1975); *Cain v. Universal Pictures Co.*, 47 F.Supp. 1013 (S.D.Cal.1942). In each case, however, the eventual lawsuit alleged infringement only as to the final work of the defendants. We conclude that this group of cases does not alter or limit the holding of *Walker*.

The remaining cases cited by Accolade, like the case before us, involved intermediate copying of computer code as an initial step in the development of a competing product. *Computer Assoc. Int'l v. Altai, Inc.*, 1992 WL 372273, 23 U.S.P.Q.2d (BNA) 1241 (2d Cir.1992) ("CAI"); *NEC Corp. v. Intel Corp.*, 10 U.S.P.Q.2d 1177, 1989 WL 67434 (N.D.Cal.1989); *E.F. Johnson Co. v. *1519 Uniden Corp.*, 623 F.Supp. 1485 (D.Minn.1985). In each case, the court based its determination regarding infringement solely on the degree of similarity between the allegedly infringed work and the defendant's final product. A close reading of those cases, however, reveals that in none of them was the legality of the intermediate copying at issue. *Sega* cites an equal number of cases involving intermediate copying of copyrighted computer code to support its assertion that such copying is prohibited. *Atari Games Corp. v. Nintendo of America, Inc.*, 18 U.S.P.Q.2d 1935, 1991 WL 57304 (N.D.Cal.1991); *SAS Institute, Inc. v. S & H Computer Systems, Inc.*, 605 F.Supp. 816 (M.D.Tenn.1985); *S & H Computer Systems, Inc. v. SAS Institute, Inc.*, 568 F.Supp. 416 (M.D.Tenn.1983); *Hubco Data Products v. Management Assistance, Inc.*, 219 U.S.P.Q. 450 (D.Idaho 1983). Again, however, it appears that the question of the lawfulness of intermediate copying was not raised in any of those cases.

In summary, the question whether intermediate copying of computer object code infringes the exclusive rights granted to the copyright owner in section 106 of the Copyright Act is a question of first impression. In light of the unambiguous language of the Act, we decline to depart from the rule set forth in *Walker* for copyrighted works generally. Accordingly, we hold that intermediate copying of computer object code

may infringe the exclusive rights granted to the copyright owner in section 106 of the Copyright Act regardless of whether the end product of the copying also infringes those rights. If intermediate copying is permissible under the Act, authority for such copying must be found in one of the statutory provisions to which the rights granted in section 106 are subject.

B. The Idea/Expression Distinction

[3] Accolade next contends that disassembly of computer object code does not violate the Copyright Act because it is necessary in order to gain access to the ideas and functional concepts embodied in the code, which are not protected by copyright. 17 U.S.C. § 102(b). Because humans cannot comprehend object code, it reasons, disassembly of a commercially available computer program into human-readable form should not be considered an infringement of the owner's copyright. Insofar as Accolade suggests that disassembly of object code is lawful per se, it seeks to overturn settled law.

Accolade's argument regarding access to ideas is, in essence, an argument that object code is not eligible for the full range of copyright protection. Although some scholarly authority supports that view, we have previously rejected it based on the language and legislative history of the Copyright Act. *Johnson Controls, Inc. v. Phoenix Control Sys., Inc.*, 886 F.2d 1173, 1175 (9th Cir.1989); *Apple Computer, Inc. v. Formula Int'l Inc.*, 725 F.2d 521, 524-25 (9th Cir.1984); see also *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1246-48 (3d Cir.1983), cert. dismissed, 464 U.S. 1033, 104 S.Ct. 690, 79 L.Ed.2d 158 (1984).

[4] As recommended by the National Commission on New Technological Uses of Copyrighted Works (CONTU), the 1980 amendments to the Copyright Act unambiguously extended copyright protection to computer programs. Pub.L. 96- 517, sec. 10, 94 Stat. 3028 (1980) (codified at 17 U.S.C. §§ 101, 117); see National Commission on New Technological Uses of Copyrighted

Works, Final Report 1 (1979) [CONTU Report]. [FN5] "[T]he Act makes no distinction between the copyrightability of those programs which directly interact with the computer user and those which simply manage the computer system." Formula, 725 F.2d at 525. Nor does the Act require that a work be directly accessible to humans in order to be eligible for copyright protection. Rather, it extends protection to all original works "which ... can be perceived, reproduced, or otherwise communicated, *1520 either directly or with the aid of a machine or device." 17 U.S.C. § 102(a); see Formula, 725 F.2d at 525. The statutory language, read together with the CONTU report, leads inexorably to the conclusion that the copyright in a computer program extends to the object code version of the program. Formula, 725 F.2d at 525; Franklin, 714 F.2d at 1248; CONTU Report at 21.

FN5. Congress adopted all of the statutory changes recommended by CONTU verbatim. Subsequent Congresses, the courts, and commentators have regarded the CONTU Report as the authoritative guide to congressional intent.

Nor does a refusal to recognize a per se right to disassemble object code lead to an absurd result. The ideas and functional concepts underlying many types of computer programs, including word processing programs, spreadsheets, and video game displays, are readily discernible without the need for disassembly, because the operation of such programs is visible on the computer screen. The need to disassemble object code arises, if at all, only in connection with operations systems, system interface procedures, and other programs that are not visible to the user when operating--and then only when no alternative means of gaining an understanding of those ideas and functional concepts exists. In our view, consideration of the unique nature of computer object code thus is more appropriate as part of the case-by-case, equitable "fair use" analysis authorized by section 107 of the Act. See *infra* Part III(D).

Accordingly, we reject Accolade's second argument.

C. Section 117

[5] Section 117 of the Copyright Act allows the lawful owner of a copy of a computer program to copy or adapt the program if the new copy or adaptation "is created as an essential step in the utilization of the computer program in conjunction with a machine and ... is used in no other manner." 17 U.S.C. § 117(1). Accolade contends that section 117 authorizes disassembly of the object code in a copyrighted computer program.

Section 117 was enacted on the recommendation of CONTU, which noted that "[b]ecause the placement of any copyrighted work into a computer is the preparation of a copy [since the program is loaded into the computer's memory], the law should provide that persons in rightful possession of copies of programs be able to use them freely without fear of exposure to copyright liability." CONTU Report at 13. We think it is clear that Accolade's use went far beyond that contemplated by CONTU and authorized by section 117. Section 117 does not purport to protect a user who disassembles object code, converts it from assembly into source code, and makes printouts and photocopies of the refined source code version. [FN6]

FN6. We need not decide whether section 117 protects only the use intended by the copyright owner, as Sega argues. See *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 261 (5th Cir.1988) (authorization of section 117(1) not limited to use intended by copyright owner).

D. Fair Use

[6] Accolade contends, finally, that its disassembly of copyrighted object code as a necessary step in its examination of the unprotected ideas and functional concepts embodied in the code is a fair use that is privileged by section 107 of the Act. Because, in the case before us, disassembly is the only

means of gaining access to those unprotected aspects of the program, and because Accolade has a legitimate interest in gaining such access (in order to determine how to make its cartridges compatible with the Genesis console), we agree with Accolade. Where there is good reason for studying or examining the unprotected aspects of a copyrighted computer program, disassembly for purposes of such study or examination constitutes a fair use.

1.

[7] As a preliminary matter, we reject Sega's contention that the assertion of a fair use defense in connection with the disassembly of object code is precluded by statute. First, Sega argues that not only does section 117 of the Act not authorize disassembly of object code, but it also constitutes a legislative determination that any copying of a computer program other than that authorized by section 117 cannot be considered a fair use of that program under ***1521** section 107. That argument verges on the frivolous. Each of the exclusive rights created by section 106 of the Copyright Act is expressly made subject to all of the limitations contained in sections 107 through 120. 17 U.S.C. § 106. Nothing in the language or the legislative history of section 117, or in the CONTU Report, suggests that section 117 was intended to preclude the assertion of a fair use defense with respect to uses of computer programs that are not covered by section 117, nor has section 107 been amended to exclude computer programs from its ambit.

Moreover, sections 107 and 117 serve entirely different functions. Section 117 defines a narrow category of copying that is lawful per se. 17 U.S.C. § 117. Section 107, by contrast, establishes a defense to an otherwise valid claim of copyright infringement. It provides that particular instances of copying that otherwise would be actionable are lawful, and sets forth the factors to be considered in determining whether the defense applies. Id. § 107. The fact that Congress has not chosen to provide a per se exemption to section 106 for

disassembly does not mean that particular instances of disassembly may not constitute fair use.

[8] Second, Sega maintains that the language and legislative history of section 906 of the Semiconductor Chip Protection Act of 1984 (SCPA) establish that Congress did not intend that disassembly of object code be considered a fair use. Section 906 of the SCPA authorizes the copying of the "mask work" on a silicon chip in the course of reverse engineering the chip. 17 U.S.C. § 906. The mask work in a standard ROM chip, such as those used in the Genesis console and in Genesis-compatible cartridges, is a physical representation of the computer program that is embedded in the chip. The zeros and ones of binary object code are represented in the circuitry of the mask work by open and closed switches. Sega contends that Congress's express authorization of copying in the particular circumstances set forth in section 906 constitutes a determination that other forms of copying of computer programs are prohibited.

The legislative history of the SCPA reveals, however, that Congress passed a separate statute to protect semiconductor chip products because it believed that semiconductor chips were intrinsically utilitarian articles that were not protected under the Copyright Act. H.R.Rep. No. 781, 98th Cong., 2d Sess. 8- 10, reprinted in 1984 U.S.C.C.A.N. 5750, 5757-59. Accordingly, rather than amend the Copyright Act to extend traditional copyright protection to chips, it enacted "a sui generis form of protection, apart from and independent of the copyright laws." Id. at 10, 1984 U.S.C.C.A.N. at 5759. Because Congress did not believe that semiconductor chips were eligible for copyright protection in the first instance, the fact that it included an exception for reverse engineering of mask work in the SCPA says nothing about its intent with respect to the lawfulness of disassembly of computer programs under the Copyright Act. Nor is the fact that Congress did not contemporaneously amend the Copyright Act to permit disassembly significant, since it was focusing

on the protection to be afforded to semiconductor chips. Here we are dealing not with an alleged violation of the SCPA, but with the copying of a computer program, which is governed by the Copyright Act. Moreover, Congress expressly stated that it did not intend to "limit, enlarge or otherwise affect the scope, duration, ownership or subsistence of copyright protection ... in computer programs, data bases, or any other copyrightable works embodied in semiconductor chip products." *Id.* at 28, 1984 U.S.C.C.A.N. at 5777. Accordingly, Sega's second statutory argument also fails. We proceed to consider Accolade's fair use defense.

2.

[9][10] Section 107 lists the factors to be considered in determining whether a particular use is a fair one. Those factors include:

- (1) the purpose and character of the use, including whether such use is of a commercial ***1522** nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107. The statutory factors are not exclusive. Rather, the doctrine of fair use is in essence "an equitable rule of reason." *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 560, 105 S.Ct. 2218, 2230, 85 L.Ed.2d 588 (1985) (quoting H.R.Rep. No. 1476, 94th Cong., 2d Sess. 65, reprinted in 1976 U.S.C.C.A.N. 5659, 5679). Fair use is a mixed question of law and fact. *Id.* "Where the district court has found facts sufficient to evaluate each of the statutory factors," an appellate court may resolve the fair use question as a matter of law. *Id.*

In determining that Accolade's disassembly of Sega's object code did not constitute a fair use, the district court treated the first and fourth statutory factors as dispositive, and ignored the second factor entirely. Given the nature and characteristics of Accolade's

direct use of the copied works, the ultimate use to which Accolade put the functional information it obtained, and the nature of the market for home video entertainment systems, we conclude that neither the first nor the fourth factor weighs in Sega's favor. In fact, we conclude that both factors support Accolade's fair use defense, as does the second factor, a factor which is important to the resolution of cases such as the one before us.

(a)

[11] With respect to the first statutory factor, we observe initially that the fact that copying is for a commercial purpose weighs against a finding of fair use. *Harper & Row*, 471 U.S. at 562, 105 S.Ct. at 2231. However, the presumption of unfairness that arises in such cases can be rebutted by the characteristics of a particular commercial use. *Hustler Magazine, Inc. v. Moral Majority, Inc.*, 796 F.2d 1148, 1152 (9th Cir.1986); see also *Maxtone-Graham v. Burtchaell*, 803 F.2d 1253, 1262 (2d Cir.1986), cert. denied, 481 U.S. 1059, 107 S.Ct. 2201, 95 L.Ed.2d 856 (1987). Further "[t]he commercial nature of a use is a matter of degree, not an absolute...." *Maxtone-Graham*, 803 F.2d at 1262.

[12] Sega argues that because Accolade copied its object code in order to produce a competing product, the *Harper & Row* presumption applies and precludes a finding of fair use. That analysis is far too simple and ignores a number of important considerations. We must consider other aspects of "the purpose and character of the use" as well. As we have noted, the use at issue was an intermediate one only and thus any commercial "exploitation" was indirect or derivative.

The declarations of Accolade's employees indicate, and the district court found, that Accolade copied Sega's software solely in order to discover the functional requirements for compatibility with the Genesis console--aspects of Sega's programs that are not protected by copyright. 17 U.S.C. § 102(b). With respect to the video game programs

contained in Accolade's game cartridges, there is no evidence in the record that Accolade sought to avoid performing its own creative work. Indeed, most of the games that Accolade released for use with the Genesis console were originally developed for other hardware systems. Moreover, with respect to the interface procedures for the Genesis console, Accolade did not seek to avoid paying a customarily charged fee for use of those procedures, nor did it simply copy Sega's code; rather, it wrote its own procedures based on what it had learned through disassembly. Taken together, these facts indicate that although Accolade's ultimate purpose was the release of Genesis-compatible games for sale, its direct purpose in copying Sega's code, and thus its direct use of the copyrighted material, was simply to study the functional requirements for Genesis compatibility so that it could modify existing games and make them usable with the Genesis console. Moreover, as we discuss below, no other method of studying those requirements was available to Accolade. On these facts, we conclude that Accolade copied ***1523** Sega's code for a legitimate, essentially non-exploitative purpose, and that the commercial aspect of its use can best be described as of minimal significance.

[13][14] We further note that we are free to consider the public benefit resulting from a particular use notwithstanding the fact that the alleged infringer may gain commercially. See *Hustler*, 796 F.2d at 1153 (quoting *MCA, Inc. v. Wilson*, 677 F.2d 180, 182 (2d Cir.1981)). Public benefit need not be direct or tangible, but may arise because the challenged use serves a public interest. *Id.* In the case before us, Accolade's identification of the functional requirements for Genesis compatibility has led to an increase in the number of independently designed video game programs offered for use with the Genesis console. It is precisely this growth in creative expression, based on the dissemination of other creative works and the unprotected ideas contained in those works, that the Copyright Act was intended to promote. See *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, ----, 111 S.Ct.

1282, 1290, 113 L.Ed.2d 358 (1991) (citing *Harper & Row*, 471 U.S. at 556-57, 105 S.Ct. at 2228-29). The fact that Genesis-compatible video games are not scholarly works, but works offered for sale on the market, does not alter our judgment in this regard. We conclude that given the purpose and character of Accolade's use of Sega's video game programs, the presumption of unfairness has been overcome and the first statutory factor weighs in favor of Accolade.

(b)

[15] As applied, the fourth statutory factor, effect on the potential market for the copyrighted work, bears a close relationship to the "purpose and character" inquiry in that it, too, accommodates the distinction between the copying of works in order to make independent creative expression possible and the simple exploitation of another's creative efforts. We must, of course, inquire whether, "if [the challenged use] should become widespread, it would adversely affect the potential market for the copyrighted work," *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 451, 104 S.Ct. 774, 793, 78 L.Ed.2d 574 (1984), by diminishing potential sales, interfering with marketability, or usurping the market, *Hustler*, 796 F.2d at 1155-56. If the copying resulted in the latter effect, all other considerations might be irrelevant. The *Harper & Row* Court found a use that effectively usurped the market for the copyrighted work by supplanting that work to be dispositive. 471 U.S. at 567-69, 105 S.Ct. at 2234-35. However, the same consequences do not and could not attach to a use which simply enables the copier to enter the market for works of the same type as the copied work.

Unlike the defendant in *Harper & Row*, which printed excerpts from President Ford's memoirs verbatim with the stated purpose of "scooping" a *Time* magazine review of the book, 471 U.S. at 562, 105 S.Ct. at 2231, Accolade did not attempt to "scoop" Sega's release of any particular game or games, but sought only to become a legitimate competitor in the field of Genesis-compatible video

games. Within that market, it is the characteristics of the game program as experienced by the user that determine the program's commercial success. As we have noted, there is nothing in the record that suggests that Accolade copied any of those elements.

[16] By facilitating the entry of a new competitor, the first lawful one that is not a Sega licensee, Accolade's disassembly of Sega's software undoubtedly "affected" the market for Genesis-compatible games in an indirect fashion. We note, however, that while no consumer except the most avid devotee of President Ford's regime might be expected to buy more than one version of the President's memoirs, video game users typically purchase more than one game. There is no basis for assuming that Accolade's "Ishido" has significantly affected the market for Sega's "Altered Beast", since a consumer might easily purchase both; nor does it seem unlikely that a consumer particularly interested in sports might purchase both Accolade's "Mike Ditka Power Football" and Sega's "Joe Montana Football", particularly if the games are, as Accolade contends, not substantially similar. In any event, an attempt to monopolize ***1524** the market by making it impossible for others to compete runs counter to the statutory purpose of promoting creative expression and cannot constitute a strong equitable basis for resisting the invocation of the fair use doctrine. Thus, we conclude that the fourth statutory factor weighs in Accolade's, not Sega's, favor, notwithstanding the minor economic loss Sega may suffer.

(c)

[17][18][19] The second statutory factor, the nature of the copyrighted work, reflects the fact that not all copyrighted works are entitled to the same level of protection. The protection established by the Copyright Act for original works of authorship does not extend to the ideas underlying a work or to the functional or factual aspects of the work. 17 U.S.C. § 102(b). To the extent that a work is functional or factual, it may be copied, *Baker v. Selden*, 101 U.S. (11 Otto) 99, 102-04, 25 L.Ed. 841

(1879), as may those expressive elements of the work that "must necessarily be used as incident to" expression of the underlying ideas, functional concepts, or facts, *id.* at 104. Works of fiction receive greater protection than works that have strong factual elements, such as historical or biographical works, *Maxtone-Graham*, 803 F.2d at 1263 (citing *Rosemont Enterprises, Inc. v. Random House, Inc.*, 366 F.2d 303, 307 (2d Cir.1966), cert. denied, 385 U.S. 1009, 87 S.Ct. 714, 17 L.Ed.2d 546 (1967)), or works that have strong functional elements, such as accounting textbooks, *Baker*, 101 U.S. at 104. Works that are merely compilations of fact are copyrightable, but the copyright in such a work is "thin." *Feist Publications*, 499 U.S. at ----, 111 S.Ct. at 1289.

Computer programs pose unique problems for the application of the "idea/expression distinction" that determines the extent of copyright protection. To the extent that there are many possible ways of accomplishing a given task or fulfilling a particular market demand, the programmer's choice of program structure and design may be highly creative and idiosyncratic. However, computer programs are, in essence, utilitarian articles--articles that accomplish tasks. As such, they contain many 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. *Computer Assoc. Int'l, Inc. v. Altai, Inc.*, 1992 WL 372273, 23 U.S.P.Q.2d (BNA) 1241, 1253-56 (2d Cir.1992) ("CAI"). In some circumstances, even the exact set of commands used by the programmer is deemed functional rather than creative for purposes of copyright. "[W]hen specific instructions, even though previously copyrighted, are the only and essential means of accomplishing a given task, their later use by another will not amount to infringement." CONTU Report at 20; see CAI, 23 U.S.P.Q.2d at 1254. [FN7]

FN7. We therefore reject Sega's belated suggestion that Accolade's incorporation of the code which

"unlocks" the Genesis III console is not a fair use. Our decision on this point is entirely consistent with *Atari v. Nintendo*, 975 F.2d 832 (Fed.Cir.1992). Although Nintendo extended copyright protection to Nintendo's 10NES security system, that system consisted of an original program which generates an arbitrary data stream "key" which unlocks the NES console. Creativity and originality went into the design of that program. See *id.* at 840. Moreover, the federal circuit concluded that there is a "multitude of different ways to generate a data stream which unlocks the NES console." *Atari*, 975 F.2d at 839. The circumstances are clearly different here. Sega's key appears to be functional. It consists merely of 20 bytes of initialization code plus the letters S-E-G-A. There is no showing that there is a multitude of different ways to unlock the Genesis III console. Finally, we note that Sega's security code is of such de minimis length that it is probably unprotected under the words and short phrases doctrine. 37 C.F.R. § 202.1(a).

Because of the hybrid nature of computer programs, there is no settled standard for identifying what is protected expression and what is unprotected idea in a case involving the alleged infringement of a copyright in computer software. We are in wholehearted agreement with the Second Circuit's recent observation that "[t]hus far, many of the decisions in this area reflect the courts' attempt to fit the proverbial square peg in a round hole." *CAI*, 23 U.S.P.Q.2d at 1257. In 1986, the Third Circuit attempted to resolve the dilemma by suggesting that the idea or function of a ***1525** computer program is the idea of the program as a whole, and "everything that is not necessary to that purpose or function [is] part of the expression of that idea." *Whelan Assoc., Inc. v. Jaslow Dental Laboratory, Inc.*, 797 F.2d 1222, 1236 (3d Cir.1986) (emphasis omitted). The Whelan rule, however, has been widely-- and soundly--criticized as simplistic and

overbroad. See *CAI*, 23 U.S.P.Q.2d at 1252 (citing cases, treatises, and articles). In reality, "a computer program's ultimate function or purpose is the composite result of interacting subroutines. Since each subroutine is itself a program, and thus, may be said to have its own 'idea,' Whelan's general formulation ... is descriptively inadequate." *Id.* For example, the computer program at issue in the case before us, a video game program, contains at least two such subroutines--the subroutine that allows the user to interact with the video game and the subroutine that allows the game cartridge to interact with the console. Under a test that breaks down a computer program into its component subroutines and sub-subroutines and then identifies the idea or core functional element of each, such as the test recently adopted by the Second Circuit in *CAI*, 23 U.S.P.Q.2d at 1252-53, many aspects of the program are not protected by copyright. In our view, in light of the essentially utilitarian nature of computer programs, the Second Circuit's approach is an appropriate one.

Sega argues that even if many elements of its video game programs are properly characterized as functional and therefore not protected by copyright, *Accolade* copied protected expression. Sega is correct. The record makes clear that disassembly is wholesale copying. Because computer programs are also unique among copyrighted works in the form in which they are distributed for public use, however, Sega's observation does not bring us much closer to a resolution of the dispute.

The unprotected aspects of most functional works are readily accessible to the human eye. The systems described in accounting textbooks or the basic structural concepts embodied in architectural plans, to give two examples, can be easily copied without also copying any of the protected, expressive aspects of the original works. Computer programs, however, are typically distributed for public use in object code form, embedded in a silicon chip or on a floppy disk. For that reason, humans often cannot gain access to the unprotected ideas and functional concepts

contained in object code without disassembling that code--i.e., making copies. [FN8] Atari Games Corp. v. Nintendo of America, 975 F.2d at 843-44 (Fed.Cir.1992).

FN8. We do not intend to suggest that disassembly is always the only available means of access to those aspects of a computer program that are unprotected by copyright. As we noted in Part III(B), *supra*, in many cases the operation of a program is directly reflected on the screen display and therefore visible to the human eye. In those cases, it is likely that a reverse engineer would not need to examine the code in order to understand what the program does.

Sega argues that the record does not establish that disassembly of its object code is the only available method for gaining access to the interface specifications for the Genesis console, and the district court agreed. An independent examination of the record reveals that Sega misstates its contents, and demonstrates that the district court committed clear error in this respect.

First, the record clearly establishes that humans cannot read object code. Sega makes much of Mike Lorenzen's statement that a reverse engineer can work directly from the zeros and ones of object code but "[i]t's not as fun." In full, Lorenzen's statements establish only that the use of an electronic decompiler is not absolutely necessary. Trained programmers can disassemble object code by hand. Because even a trained programmer cannot possibly remember the millions of zeros and ones that make up a program, however, he must make a written or computerized copy of the disassembled code in order to keep track of his work. See generally Johnson-Laird, Technical Demonstration of "Decompilation", reprinted in *Reverse Engineering: Legal and Business Strategies for Competitive Design in the 1990's* 102 (Prentice Hall Law & Business ed. 1992). The relevant fact for purposes of Sega's copyright infringement claim and Accolade's fair use ***1526** defense is that

translation of a program from object code into source code cannot be accomplished without making copies of the code.

Second, the record provides no support for a conclusion that a viable alternative to disassembly exists. The district court found that Accolade could have avoided a copyright infringement claim by "peeling" the chips contained in Sega's games or in the Genesis console, as authorized by section 906 of the SCPA, 17 U.S.C. § 906. Even Sega's amici agree that this finding was clear error. The declaration of Dr. Harry Tredennick, an expert witness for Accolade, establishes that chip peeling yields only a physical diagram of the object code embedded in a ROM chip. It does not obviate the need to translate object code into source code. Atari Games Corp., 975 F.2d at 843-44.

The district court also suggested that Accolade could have avoided a copyright infringement suit by programming in a "clean room". That finding too is clearly erroneous. A "clean room" is a procedure used in the computer industry in order to prevent direct copying of a competitor's code during the development of a competing product. Programmers in clean rooms are provided only with the functional specifications for the desired program. As Dr. Tredennick explained, the use of a clean room would not have avoided the need for disassembly because disassembly was necessary in order to discover the functional specifications for a Genesis-compatible game.

[20] In summary, the record clearly establishes that disassembly of the object code in Sega's video game cartridges was necessary in order to understand the functional requirements for Genesis compatibility. The interface procedures for the Genesis console are distributed for public use only in object code form, and are not visible to the user during operation of the video game program. Because object code cannot be read by humans, it must be disassembled, either by hand or by machine. Disassembly of object code necessarily entails copying. Those facts dictate our analysis of the second

statutory fair use factor. If disassembly of copyrighted object code is per se an unfair use, the owner of the copyright gains a de facto monopoly over the functional aspects of his work--aspects that were expressly denied copyright protection by Congress. 17 U.S.C. § 102(b). In order to enjoy a lawful monopoly over the idea or functional principle underlying a work, the creator of the work must satisfy the more stringent standards imposed by the patent laws. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 159- 64, 109 S.Ct. 971, 982-84, 103 L.Ed.2d 118 (1989). Sega does not hold a patent on the Genesis console.

[21] Because Sega's video game programs contain unprotected aspects that cannot be examined without copying, we afford them a lower degree of protection than more traditional literary works. See CAI, 23 U.S.P.Q.2d at 1257. In light of all the considerations discussed above, we conclude that the second statutory factor also weighs in favor of Accolade. [FN9]

FN9. Sega argues that its programs are unpublished works and that therefore, under *Harper & Row*, the second statutory factor weighs in its favor. 471 U.S. at 553-55, 105 S.Ct. at 2226-28. Recently, however, this court affirmed a district court holding that computer game cartridges that are held out to the public for sale are published works for purposes of copyright. *Lewis Galoob Toys, Inc. v. Nintendo of America, Inc.*, 964 F.2d 965, 971 (9th Cir.1992, as amended August 5, 1992) (affirming 780 F.Supp. 1283, 1293 (N.D.Cal.1991)). The decision in *Association of Am. Medical Colleges v. Cuomo*, 928 F.2d 519 (2d Cir.1991), cert. denied, 502 U.S. 862, 112 S.Ct. 184, 116 L.Ed.2d 146 (1991), is not to the contrary. The Medical College Admission Test is not held out to the public for sale, but rather is distributed on a highly restricted basis.

(d)

As to the third statutory factor, Accolade disassembled entire programs written by Sega. Accordingly, the third factor weighs against Accolade. The fact that an entire work was copied does not, however, preclude a finding a fair use. *Sony Corp.*, 464 U.S. at 449-50, 104 S.Ct. at 792; *Hustler*, 796 F.2d at 1155 ("Sony Corp. teaches us that the copying of an entire work does not preclude fair use per se."). In fact, where the ultimate (as opposed to direct) use is as *1527 limited as it was here, the factor is of very little weight. Cf. *Wright v. Warner Books, Inc.*, 953 F.2d 731, 738 (2d Cir.1991).

(e)

[22] In summary, careful analysis of the purpose and characteristics of Accolade's use of Sega's video game programs, the nature of the computer programs involved, and the nature of the market for video game cartridges yields the conclusion that the first, second, and fourth statutory fair use factors weigh in favor of Accolade, while only the third weighs in favor of Sega, and even then only slightly. Accordingly, Accolade clearly has by far the better case on the fair use issue.

We are not unaware of the fact that to those used to considering copyright issues in more traditional contexts, our result may seem incongruous at first blush. To oversimplify, the record establishes that Accolade, a commercial competitor of Sega, engaged in wholesale copying of Sega's copyrighted code as a preliminary step in the development of a competing product. However, the key to this case is that we are dealing with computer software, a relatively unexplored area in the world of copyright law. We must avoid the temptation of trying to force "the proverbial square peg in[to] a round hole." CAI, 23 U.S.P.Q.2d at 1257.

[23] In determining whether a challenged use of copyrighted material is fair, a court must keep in mind the public policy underlying the Copyright Act. "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.' " Sony Corp., 464 U.S. at 432, 104 S.Ct. at 783 (quoting Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156, 95 S.Ct. 2040, 2044, 45 L.Ed.2d 84 (1975)). When technological change has rendered an aspect or application of the Copyright Act ambiguous, " 'the Copyright Act must be construed in light of this basic purpose.' " Id. As discussed above, the fact that computer programs are distributed for public use in object code form often precludes public access to the ideas and functional concepts contained in those programs, and thus confers on the copyright owner a de facto monopoly over those ideas and functional concepts. That result defeats the fundamental purpose of the Copyright Act--to encourage the production of original works by protecting the expressive elements of those works while leaving the ideas, facts, and functional concepts in the public domain for others to build on. Feist Publications, 499 U.S. at ----, 111 S.Ct. at 1290; see also Atari Games Corp., 975 F.2d at 842 - 43.

[24] Sega argues that the considerable time, effort, and money that went into development of the Genesis and Genesis-compatible video games militate against a finding of fair use. Borrowing from antitrust principles, Sega attempts to label Accolade a "free rider" on its product development efforts. In Feist Publications, however, the Court unequivocally rejected the "sweat of the brow" rationale for copyright protection. 499 U.S. at ---- - ----, 111 S.Ct. at 1290-95. Under the Copyright Act, if a work is largely functional, it receives only weak protection. "This result is neither unfair nor unfortunate. It is the means by which copyright advances the progress of science and art." Id. 499 U.S. at ----, 111 S.Ct. at 1290; see also id. 499 U.S. at ----, 111 S.Ct. at 1292 ("In truth, '[i]t is just such wasted effort that the proscription against the copyright of ideas and facts ... [is] designed to prevent.' ") (quoting Rosemont Enterprises, Inc. v. Random House, Inc., 366 F.2d 303, 310 (2d Cir.1966), cert. denied 385 U.S. 1009, 87 S.Ct. 714, 17 L.Ed.2d 546 (1967)); CAI, 23 U.S.P.Q.2d at 1257. Here, while the work may not be largely functional, it incorporates

functional elements which do not merit protection. The equitable considerations involved weigh on the side of public access. Accordingly, we reject Sega's argument.

(f)

We conclude that where disassembly is the only way to gain access to the ideas and functional elements embodied in a copyrighted computer program and where there is a legitimate reason for seeking such access, disassembly is a fair use of ***1528** the copyrighted work, as a matter of law. Our conclusion does not, of course, insulate Accolade from a claim of copyright infringement with respect to its finished products. Sega has reserved the right to raise such a claim, and it may do so on remand.

IV. Trademark Issues

Ordinarily in a trademark case, a trademark holder contends that another party is misusing the holder's mark or is attempting to pass off goods or services as those of the trademark holder. The other party usually protests that the mark is not being misused, that there is no actual confusion, or that for some other reason no violation has occurred. This case is different. Here, both parties agree that there is a misuse of a trademark, both agree that there is unlawful mislabeling, and both agree that confusion may result. The issue, here, is-- which party is primarily responsible? Which is the wrongdoer--the violator? Is it Sega, which has adopted a security system governing access to its Genesis III console that displays its trademark and message whenever the initialization code for the security system is utilized, even when the video game program was manufactured by a Sega competitor? Or is it Accolade, which, having discovered how to gain access to the Genesis III through the initialization code, uses that code even though doing so triggers the display of Sega's trademark and message in a manner that leads observers to believe that Sega manufactured the Accolade game cartridge? In other words, is Sega the injured party because its mark is wrongfully attached

to an Accolade video game by Accolade? Or is Accolade wronged because its game is mislabeled as a Sega product by Sega? The facts are relatively straightforward and we have little difficulty answering the question.

[25] Sega's trademark security system (TMSS) initialization code not only enables video game programs to operate on the Genesis III console, but also prompts a screen display of the SEGA trademark and message. As a result, Accolade's inclusion of the TMSS initialization code in its video game programs has an effect ultimately beneficial neither to Sega nor to Accolade. A Genesis III owner who purchases a video game made by Accolade sees Sega's trademark associated with Accolade's product each time he inserts the game cartridge into the console. Sega claims that Accolade's inclusion of the TMSS initialization code in its games constitutes trademark infringement and false designation of origin in violation of sections 32(1)(a) and 43(a) of the Lanham Trademark Act, 15 U.S.C. §§ 1114(1)(a), 1125(a), respectively. Accolade counterclaims that Sega's use of the TMSS to prompt a screen display of its trademark constitutes false designation of origin under Lanham Act section 43(a), 15 U.S.C. § 1125(a).

Because the TMSS has the effect of regulating access to the Genesis III console, and because there is no indication in the record of any public or industry awareness of any feasible alternate method of gaining access to the Genesis III, we hold that Sega is primarily responsible for any resultant confusion. Thus, it has not demonstrated a likelihood of success on the merits of its Lanham Act claims. Accordingly, the preliminary injunction it obtained must be dissolved with respect to the trademark claim also. However, we decline to instruct the district court to grant Accolade's request for preliminary injunctive relief at this time. The decision whether to grant such relief requires the making of factual and equitable determinations in light of the legal conclusions we express here. Such determinations are best left in the first instance to the district court.

A. False Labeling

Section 32(1)(a) of the Lanham Act creates a cause of action for trademark infringement against any person who, without the consent of the trademark owner, "use[s] in commerce any reproduction ... of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive...." 15 U.S.C. § 1114(1)(a). Section 43(a) proscribes the use in commerce ***1529** of a false designation of origin in connection with goods or services where such use is "likely to cause confusion, or ... mistake." Id. § 1125(a). Both Sega and Accolade agree that the screen display of the Sega trademark and message creates a likelihood of consumer confusion regarding the origin of Accolade's games. The question is: which party is legally responsible for that confusion? We disagree with the answer given by the district court.

The district court found that Accolade bore primary responsibility for any consumer confusion that resulted from the display of the false Sega Message. However, Accolade had no desire to cause the Sega Message to appear or otherwise to create any appearance of association between itself and Sega; in fact, it had precisely the opposite wish. It used the TMSS initialization code only because it wanted to gain access for its products to the Genesis III, and was aware of no other method for doing so. On the other hand, while it may not have been Sega's ultimate goal to mislabel Accolade's products, the record is clear that the false labeling was the result of a deliberate decision on the part of Sega to include in the Genesis III a device which would both limit general access and cause false labeling. The decision to use the SEGA trademark as an essential element of a functional device that regulates access and to cause the SEGA trademark and message to be displayed whenever that functional device was triggered compels us to place primary responsibility for consumer confusion squarely on Sega.

With respect to Accolade, we emphasize that the record clearly establishes that it had only one objective in this matter: to make its video game programs compatible with the Genesis III console. That objective was a legitimate and a lawful one. There is no evidence whatsoever that Accolade wished Sega's trademark to be displayed when Accolade's games were played on Sega's consoles. To the contrary, Accolade included disclaimers on its packaging materials which stated that "Accolade, Inc. is not associated with Sega Enterprises, Ltd." When questioned regarding the Sega Message and its potential effect on consumers, Alan Miller testified that Accolade does not welcome the association between its product and Sega and would gladly avoid that association if there were a way to do so. Miller testified that Accolade's engineers had not been able to discover any way to modify their game cartridges so that the games would operate on the Genesis III without prompting the screen display of the Sega Message.

In contrast, Sega officials testified that Sega incorporated the TMSS into the Genesis console, known in Asia as the Mega-Drive, in order to lay the groundwork for the trademark prosecution of software pirates who sell counterfeit cartridges in Taiwan and South Korea, as well as in the United States. Sega then marketed the redesigned console worldwide. Sega intended that when Sega game programs manufactured by a counterfeiter were played on its consoles, the Sega Message would be displayed, thereby establishing the legal basis for a claim of trademark infringement. However, as Sega certainly knew, the TMSS also had the potential to affect legitimate competitors adversely. First, Sega should have foreseen that a competitor might discover how to utilize the TMSS, and that when it did and included the initialization code in its cartridges, its video game programs would also end up being falsely labeled. Sega should also have known that the TMSS might discourage some competitors from manufacturing independently developed games for use with the Genesis III console, because they would not want to become the victims of such a

labeling practice. Thus, in addition to laying the groundwork for lawsuits against pirates, Sega knowingly risked two significant consequences: the false labeling of some competitors' products and the discouraging of other competitors from manufacturing Genesis-compatible games. Under the Lanham Act, the former conduct, at least, is clearly unlawful.

"[T]rademark policies are designed '(1) to protect consumers from being misled ...; (2) to prevent an impairment of the value of the enterprise which owns the trademark; and (3) to achieve these ends in a manner consistent with the objectives of free competition.' " *Anti-Monopoly, Inc. v. General *1530 Mills Fun Group*, 611 F.2d 296, 300-01 (9th Cir.1979) (quoting *HMH Publishing Co. v. Brincat*, 504 F.2d 713, 716 (9th Cir.1974)). Sega violated the first and the third of these principles. "The trademark is misused if it serves to limit competition in the manufacture and sales of a product. That is the special province of the limited monopolies provided pursuant to the patent laws." *Id.* at 301 (citation omitted).

[26] Sega makes much of the fact that it did not adopt the TMSS in order to wage war on Accolade in particular, but rather as a defensive measure against software counterfeiters. It is regrettable that Sega is troubled by software pirates who manufacture counterfeit products in other areas of the world where adequate copyright remedies are not available. However, under the Lanham Act, which governs the use of trademarks and other designations of origin in this country, it is the effect of the message display that matters. Whatever Sega's intent with respect to the TMSS, the device serves to limit competition in the market for Genesis-compatible games and to mislabel the products of competitors. Moreover, by seeking injunctive relief based on the mislabeling it has itself induced, Sega seeks once again to take advantage of its trademark to exclude its competitors from the market. The use of a mark for such purpose is inconsistent with the Lanham Act.

B. Functionality

[27] Sega argues that even if the legal analysis we have enunciated is correct, the facts do not support its application to this case. Specifically, Sega contends that the TMSS does not prevent legitimate unlicensed competitors from developing and marketing Genesis III-compatible cartridges that do not trigger a display of the Sega trademark and message. In other words, Sega claims that Accolade could have "engineered around" the TMSS. Accolade strongly disagrees with Sega's factual assertions. It contends that the TMSS initialization sequence is a functional feature that must be included in a video game program by a manufacturer in order for the game to operate on the Genesis III. Sega's factual argument stands or falls on the Nagashima declaration and the accompanying modified game cartridges that Sega introduced at the hearing. Having carefully reviewed the declaration, we conclude that Sega has not met its burden of establishing nonfunctionality.

Based on the Nagashima declaration and on the modified cartridges, the district court concluded that the TMSS initialization sequence was not a necessary component of a Genesis-compatible game. [FN10] The court found that Accolade could have created a game cartridge that lacked the TMSS initialization code but would still operate on the Genesis III, or could have programmed its games in such a way that the false Sega Message would not be displayed on the screen. The court further found that either modification could have been accomplished at minimal additional expense to Accolade. Accordingly, the court ruled that Accolade could not assert a functionality defense.

FN10. Accolade challenges the admissibility of the Nagashima declaration and the modified cartridges on several grounds. First, it argues that the district court promised to hold an in camera hearing on the declaration, but never did so. However, the record reveals that the district judge ultimately promised to

hold such a hearing only if she felt it was necessary.

Second, Accolade contends that because Nagashima never specified the nature of the modification that he had made to Accolade's cartridges, the district court erred in admitting the cartridges as evidence without ascertaining that the TMSS initialization sequence really had been omitted. In a preliminary injunction proceeding, the district court is accorded broad discretion in ruling on the admissibility of evidence. *Flynt Distributing Co., Inc. v. Harvey*, 734 F.2d 1389, 1394 (9th Cir.1984). In the absence of any evidence that Nagashima was lying, it was not an abuse of discretion for the district judge to admit his declaration and the altered Accolade cartridges as evidence. The fact that neither Accolade nor the district court was able to verify Nagashima's statements affects the weight to be given the statements and the proffered cartridges, not their admissibility.

[28][29] The question whether a product feature is functional is a question of fact. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 855, 102 S.Ct. 2182, 2189, 72 L.Ed.2d 606 (1982). Determination of the correct legal standard to apply in evaluating functionality, however, ***1531** is a question of law which we review de novo. *Id.* at 855 n. 15, 102 S.Ct. at 2189 n. 15. The burden of proving nonfunctionality is on Sega. See *Rachel v. Banana Republic, Inc.*, 831 F.2d 1503, 1506 (9th Cir.1987). In the case before us, we conclude that the district court's finding of nonfunctionality was based on its use of an incorrect legal standard. Viewed in the correct light, the record before us supports only one conclusion: The TMSS initialization code is a functional feature of a Genesis-compatible game and Accolade may not be barred from using it.

[30][31] "Functional features of a product are features 'which constitute the actual benefit that the consumer wishes to purchase, as

distinguished from an assurance that a particular entity made, sponsored, or endorsed a product.' " *Vuitton et Fils S.A. v. J. Young Enterprises, Inc.*, 644 F.2d 769, 774 (9th Cir.1981) (quoting *International Order of Job's Daughters v. Lindeburg & Co.*, 633 F.2d 912, 917 (9th Cir.1980), cert. denied, 452 U.S. 941, 101 S.Ct. 3086, 69 L.Ed.2d 956 (1981)). A product feature thus is functional "if it is essential to the use or purpose of the article or if it affects the cost or quality of the article." *Inwood Laboratories*, 456 U.S. at 850 n. 10, 102 S.Ct. at 2187 n. 10. The Lanham Act does not protect essentially functional or utilitarian product features because such protection would constitute a grant of a perpetual monopoly over features that could not be patented. *Keene Corp. v. Paraflex Industries, Inc.*, 653 F.2d 822, 824 (3d Cir.1981). Even when the allegedly functional product feature is a trademark, the trademark owner may not enjoy a monopoly over the functional use of the mark. *Job's Daughters*, 633 F.2d at 918-19.

In determining whether a product feature is functional, a court may consider a number of factors, including--but not limited to--"the availability of alternative designs; and whether a particular design results from a comparatively simple or cheap method of manufacture." *Clamp Mfg. Co. v. Enco Mfg. Co., Inc.*, 870 F.2d 512, 516 (9th Cir.), cert. denied, 493 U.S. 872, 110 S.Ct. 202, 107 L.Ed.2d 155 (1989). The availability of alternative methods of manufacture must be more than merely theoretical or speculative, however. The court must find "that commercially feasible alternative configurations exist." *Id.* (emphasis added). Moreover, some cases have even suggested that in order to establish nonfunctionality the party with the burden must demonstrate that the product feature "serves no purpose other than identification." " *Keene Corp.*, 653 F.2d at 826 (quoting *SK & F Co. v. Premo Pharmaceutical Laboratories, Inc.*, 625 F.2d 1055, 1063 (3d Cir.1980)). With these principles in mind, we turn to the question whether the TMSS initialization code is a functional feature of a Genesis-compatible game.

It is indisputable that, in the case before us, part of "the actual benefit that the consumer wishes to purchase" is compatibility with the Genesis III console. The TMSS initialization code provides that compatibility. Sega argues that the modified cartridges that were introduced in the district court establish the actual existence of technically and commercially feasible alternative methods of gaining access to the Genesis III. The cartridges were prepared by Nagashima, an employee in Sega's Hardware Research and Development Department who was "familiar with the TMSS system". At most, the Nagashima affidavit establishes that an individual familiar with the operation of the TMSS can discover a way to engineer around it. It does not establish that a competitor with no knowledge of the workings of the TMSS could do so. Nor is there any evidence that there was any public or industry awareness of any alternate method for gaining access to the Genesis III. Evidence that an individual, even an independent expert, produced one or more cartridges is not sufficient proof that an alternate method exists. What is needed for proof of that fact is proof of the method itself. Here, such proof is totally lacking. What is also needed is proof that knowledge of the alternate method exists or is readily available to knowledgeable persons in the industry. That proof also is totally lacking here. Accordingly, the district court erred as a matter of law in concluding that the Nagashima declaration and the modified cartridges were sufficient to establish nonfunctionality.

***1532** Because the TMSS serves the function of regulating access to the Genesis III, and because a means of access to the Genesis III console without using the TMSS initialization code is not known to manufacturers of competing video game cartridges, there is an insufficient basis for a finding of nonfunctionality. Moreover, we note that the only evidence in the record (other than the Nagashima declaration) relating to Accolade's ability to gain access to the Genesis III through the use of any process other than the TMSS is the affidavit of Alan Miller. Miller stated that Accolade's software engineers--who, absent

any evidence to the contrary, we presume to be reasonably competent representatives of their profession--have not been able to discover such a method. This evidence supports our conclusion that Sega has not met its burden of establishing nonfunctionality.

[32] Sega argues that it is not required to share with Accolade or with any other competitor the secrets of how the TMSS works, and how to engineer around it. Sega is correct--the law does not require that it disclose its trade secrets to Accolade in connection with its effort to prevail on its Lanham Act claim, nor in connection with its effort to defend itself against Accolade's counterclaim. Nevertheless, a Lanham Act plaintiff is not entitled to prevail in litigation solely on the basis of unsupported assertions. Rather, it has a choice. It can take its chances and proceed to trial without the sensitive evidence. Alternatively, if it believes the evidence important to the resolution of the dispute, it may seek a protective order from the court pursuant to Federal Rule of Civil Procedure 26(c)(7) governing discovery. "The protective order is not a substitute for [evidence relevant to the merits]. Its purpose ... is to prevent harm by limiting disclosure of relevant and necessary information." *Micro Motion, Inc. v. Kane Steel Co., Inc.*, 894 F.2d 1318, 1325 (Fed.Cir.1990) (emphasis omitted). Upon a showing that a protective order is warranted, see *American Standard, Inc. v. Pfizer Inc.*, 828 F.2d 734, 739-44 (Fed.Cir.1987), the court may restrict access to the disputed material to the opposing party's counsel, or may allow the parties to retain independent experts to evaluate material that is subject to the protective order. See, e.g., *Safe Flight Instrument Corp. v. Sundstrand Data Control, Inc.*, 682 F.Supp. 20, 22 (D.Del.1988) (listing cases). The latter solution is particularly helpful to the court in a case such as this one, in which the dispute is highly technical in nature. However, neither the district court nor Sega took advantage of this procedure. Thus there is no independent evidence to support the conclusion offered by Nagashima.

In summary, because Sega did not produce sufficient evidence regarding the existence of a feasible alternative to the use of the TMSS initialization code, it did not carry its burden and its claim of nonfunctionality fails. Possibly, Sega will be able to meet its burden of proof at trial. We cannot say. However, we conclude that in light of the record before the district court, Sega was not entitled to preliminary injunctive relief under the Lanham Act. [FN11]

FN11. Sega contends that even if the TMSS code is functional, Accolade, as the copier, was obligated to take the most effective measures reasonably available to eliminate the consumer confusion that has arisen as a result of the association of Sega's trademark with Accolade's product. The district court relied on *Plasticolor Molded Products v. Ford Motor Co.*, 713 F.Supp. 1329, 1339 (C.D.Cal.1989), a decision it acknowledged had been vacated. See *Plasticolor Molded Products v. Ford Motor Co.*, 767 F.Supp. 1036 (C.D.Cal.1991). When a product feature is both functional and source-identifying, the copier need only take reasonable measures to avoid consumer confusion. *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1141 (3d Cir.1986); *Job's Daughters*, 633 F.2d at 919 (the degree of protection afforded a product feature that has both functional and source-identifying aspects depends on the characteristics of the use and on the copier's merchandising practices). Assuming *arguendo* that the rules applicable to copiers apply here, the measures adopted by Accolade satisfy a reasonableness standard. Accolade placed disclaimers on its packaging materials which stated that "Accolade, Inc. is not associated with Sega Enterprises, Ltd." While Accolade could have worded its disclaimer more strongly, the version that it chose would appear to be sufficient.

C. Accolade's Request for Preliminary
Injunctive Relief

Finally, we decline to order the district court to grant Accolade preliminary injunctive relief on its Lanham Act claim. If requested, the district court may reconsider that issue in light of the legal principles we *1533 have set forth. The parties have presented arguments regarding the hardships they would suffer under various circumstances. We believe those arguments should be weighed by the district court before any affirmative relief is ordered. Moreover, the parties may have additional factual material they wish to present regarding the question of Accolade's right to preliminary injunctive relief. Pending further consideration of this matter by the district court, we are content to let the matter rest where it stands, with each party as free to act as it was before the issuance of preliminary injunctive relief. We are confident that preserving the status quo in this manner will not lead to any serious inequity. Costs on appeal shall be assessed against Sega.

AFFIRMED IN PART; REVERSED IN PART;
AND REMANDED.

Direct & Contributory Infringement – OSP Liability

907 F.Supp. 1361
64 USLW 2370, 1995 Copr.L.Dec. P 27,500,
37 U.S.P.Q.2d 1545, 24 Media L. Rep. 1097
(Cite as: 907 F.Supp. 1361)

**RELIGIOUS TECHNOLOGY CENTER, a
California non-profit corporation; and
Bridge
Publications, Inc., a California non-profit
corporation, Plaintiffs,**
v.
**NETCOM ON-LINE COMMUNICATION
SERVICES, INC., a Delaware corporation;
Dennis
Erlich, an individual; and Tom Klemesrud,
an individual, dba Clearwood Data
Services, Defendants.**

No. C-95-20091 RMW.

United States District Court,
N.D. California.

Nov. 21, 1995.

DENYING
PLAINTIFFS' MOTION FOR PRELIMINARY
INJUNCTION AGAINST NETCOM AND
KLEMESRUD

WHYTE, District Judge.

This case concerns an issue of first impression regarding intellectual property rights in cyberspace. [FN1] Specifically, this order addresses whether the operator of a computer bulletin board service ("BBS"), and the large Internet [FN2] access provider that allows that BBS to reach the Internet, should be liable for copyright infringement committed by a subscriber of the BBS.

FN1. Cyberspace is a popular term for the world of electronic communications over computer networks. See Trotter Hardy, The Proper Legal Regime for

"Cyberspace," 55 U.PITT.L.REV. 993, 994 (1994).

FN2. "The Internet today is a worldwide entity whose nature cannot be easily or simply defined. From a technical definition, the Internet is the 'set of all interconnected IP networks'--the collection of several thousand local, regional, and global computer networks interconnected in real time via the TCP/IP Internetworking Protocol suite...." Daniel P. Dern, THE INTERNET GUIDE FOR NEW USERS 16 (1994). One article described the Internet as a collection of thousands of local, regional, and global Internet Protocol networks. What it means in practical terms is that millions of computers in schools, universities, corporations, and other organizations are tied together via telephone lines. The Internet enables users to share files, search for information, send electronic mail, and log onto remote computers. But it isn't a program or even a particular computer resource. It remains only a means to link computer users together.

Unlike on-line computer services such as CompuServe and America On Line, no one runs the Internet....

No one pays for the Internet because the network itself doesn't exist as a separate entity. Instead various universities and organizations pay for the dedicated lines linking their computers. Individual users may pay an Internet provider for access to the Internet via its server.

David Bruning, Along the InfoBahn, ASTRONOMY, Vol. 23, No. 6, p. 76 (June 1995).

Plaintiffs Religious Technology Center ("RTC") and Bridge Publications, Inc. ("BPI") hold copyrights in the unpublished and published works of L. Ron Hubbard, the late founder of the Church of Scientology ("the Church"). Defendant Dennis Erlich ("Erlich") [FN3] is a former minister of Scientology turned vocal critic of the Church, whose pulpit is now the Usenet newsgroup [FN4]

alt.religion.scientology ("a.r.s."), an on-line forum for discussion and criticism of Scientology. Plaintiffs maintain that Erlich infringed their copyrights when he posted portions of their *1366 works on a.r.s. Erlich gained his access to the Internet through defendant Thomas Klemesrud's ("Klemesrud's") BBS "support.com." Klemesrud is the operator of the BBS, which is run out of his home and has approximately 500 paying users. Klemesrud's BBS is not directly linked to the Internet, but gains its connection through the facilities of defendant Netcom On-Line Communications, Inc. ("Netcom"), one of the largest providers of Internet access in the United States.

FN3. Issues of Erlich's liability were addressed in this court's order of September 22, 1995. That order concludes in part that a preliminary injunction against Erlich is warranted because plaintiffs have shown a likelihood of success on their copyright infringement claims against him. Plaintiffs likely own valid copyrights in Hubbard's published and unpublished works and Erlich's near-verbatim copying of substantial portions of plaintiffs' works was not likely a fair use. To the extent that Netcom and Klemesrud argue that plaintiffs' copyrights are invalid and that Netcom and Klemesrud are not liable because Erlich had a valid fair use defense, the court previously rejected these arguments and will not reconsider them here.

FN4. The Usenet has been described as a worldwide community of electronic BBSs that is closely associated with the Internet and with the Internet community. ¶ The messages in Usenet are organized into thousands of topical groups, or "Newsgroups".... ¶ As a Usenet user, you read and contribute ("post") to your local Usenet site. Each Usenet site distributes its users' postings to other Usenet sites based on various implicit and explicit configuration settings, and in turn receives postings from other sites. Usenet traffic

typically consists of as much as 30 to 50 Mbytes of messages per day. ¶ Usenet is read and contributed to on a daily basis by a total population of millions of people.... ¶ There is no specific network that is the Usenet. Usenet traffic flows over a wide range of networks, including the Internet and dial-up phone links. Dern, supra, at 196-97.

After failing to convince Erlich to stop his postings, plaintiffs contacted defendants Klemesrud and Netcom. Klemesrud responded to plaintiffs' demands that Erlich be kept off his system by asking plaintiffs to prove that they owned the copyrights to the works posted by Erlich. However, plaintiffs refused Klemesrud's request as unreasonable. Netcom similarly refused plaintiffs' request that Erlich not be allowed to gain access to the Internet through its system. Netcom contended that it would be impossible to prescreen Erlich's postings and that to kick Erlich off the Internet meant kicking off the hundreds of users of Klemesrud's BBS. Consequently, plaintiffs named Klemesrud and Netcom in their suit against Erlich, although only on the copyright infringement claims. [FN5]

FN5. The First Amended Complaint ("FAC") contains three claims: (1) copyright infringement of BPI's published literary works against all defendants; (2) copyright infringement of RTC's unpublished confidential works against all defendants; and (3) misappropriation of RTC's trade secrets against defendant Erlich only.

On June 23, 1995, this court heard the parties' arguments on eight motions, three of which relate to Netcom and Klemesrud and are discussed in this order: (1) Netcom's motion for summary judgment; (2) Klemesrud's motion for judgment on the pleadings; [FN6] and (3) plaintiffs' motion for a preliminary injunction against Netcom and Klemesrud. For the reasons set forth below, the court grants in part and denies in part Netcom's motion for summary judgment and Klemesrud's motion for judgment on the

pleadings and denies plaintiffs' motion for a preliminary injunction.

B. Copyright Infringement

[1] To establish a claim of copyright infringement, a plaintiff must demonstrate (1) ownership of a valid copyright and (2) "copying" [*1367 FN7] of protectable expression by the defendant. *Baxter v. MCA, Inc.*, 812 F.2d 421, 423 (9th Cir.), cert. denied, 484 U.S. 954, 108 S.Ct. 346, 98 L.Ed.2d 372 (1987). Infringement occurs when a defendant violates one of the exclusive rights of the copyright holder. 17 U.S.C. § 501(a). These rights include the right to reproduce the copyrighted work, the right to prepare derivative works, the right to distribute copies to the public, and the right to publicly display the work. 17 U.S.C. §§ 106(1)-(3) & (5). The court has already determined that plaintiffs have established that they own the copyrights to all of the Exhibit A and B works, except item 4 of Exhibit A. [FN8] The court also found plaintiffs likely to succeed on their claim that defendant Erlich copied the Exhibit A and B works and was not entitled to a fair use defense. Plaintiffs argue that, although Netcom was not itself the source of any of the infringing materials on its system, it nonetheless should be liable for infringement, either directly, contributorily, or vicariously. [FN9] Netcom disputes these theories of infringement and further argues that it is entitled to its own fair use defense.

FN7. In this context, "copying" is "shorthand for the infringing of any of the copyright owner's five exclusive rights." *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 n. 3 (9th Cir.1989).

FN8. The court has under submission plaintiffs' request to expand the preliminary injunction against Erlich.

FN9. Plaintiffs have argued at times during this litigation that Netcom should only be required to respond after being given notice, which is only relevant to contributory infringement.

Nevertheless, the court will address all three theories of infringement liability.

1. Direct Infringement

Infringement consists of the unauthorized exercise of one of the exclusive rights of the copyright holder delineated in section 106. 17 U.S.C. § 501. Direct infringement does not require intent or any particular state of mind, [FN10] although willfulness is relevant to the award of statutory damages. 17 U.S.C. § 504(c).

FN10. The strict liability for copyright infringement is in contrast to another area of liability affecting online service providers: defamation. Recent decisions have held that where a BBS exercised little control over the content of the material on its service, it was more like a "distributor" than a "republisher" and was thus only liable for defamation on its system where it knew or should have known of the defamatory statements. *Cubby, Inc. v. CompuServe, Inc.*, 776 F.Supp. 135 (S.D.N.Y.1991). By contrast, a New York state court judge found that Prodigy was a publisher because it held itself out to be controlling the content of its services and because it used software to automatically prescreen messages that were offensive or in bad taste. *Stratton Oakmont, Inc. v. Prodigy Services Co.*, 1995 WL 323710, THE RECORDER, June 1, 1995, at 7 (excerpting May 24, 1995 Order Granting Partial Summary Judgment to Plaintiffs).

Many of the facts pertaining to this motion are undisputed. The court will address the relevant facts to determine whether a theory of direct infringement can be supported based on Netcom's alleged reproduction of plaintiffs' works. The court will look at one controlling Ninth Circuit decision addressing copying in the context of computers and two district court opinions addressing the liability of BBS operators for the infringing activities of subscribers. The court will additionally examine whether Netcom is liable for

infringing plaintiffs' exclusive rights to publicly distribute and display their works.

a. Undisputed Facts

The parties do not dispute the basic processes that occur when Erlich posts his allegedly infringing messages to a.r.s. Erlich connects to Klemesrud's BBS using a telephone and a modem. Erlich then transmits his messages to Klemesrud's computer, where they are automatically briefly stored. According to a prearranged pattern established by Netcom's software, Erlich's initial act of posting a message to the Usenet results in the automatic copying of Erlich's message from Klemesrud's computer onto Netcom's computer and onto other computers on the Usenet. In order to ease transmission and for the convenience of Usenet users, Usenet servers maintain postings from newsgroups for a short period of time--eleven days for Netcom's system and three days for Klemesrud's system. Once on Netcom's computers, messages are available to Netcom's customers and Usenet neighbors, who may then download the messages to their *1368 own computers. Netcom's local server makes available its postings to a group of Usenet servers, which do the same for other servers until all Usenet sites worldwide have obtained access to the postings, which takes a matter of hours. Francis Decl. ¶ 5.

Unlike some other large on-line service providers, such as CompuServe, America Online, and Prodigy, Netcom does not create or control the content of the information available to its subscribers. It also does not monitor messages as they are posted. It has, however, suspended the accounts of subscribers who violated its terms and conditions, such as where they had commercial software in their posted files. Netcom admits that, although not currently configured to do this, it may be possible to reprogram its system to screen postings containing particular words or coming from particular individuals. Netcom, however, took no action after it was told by plaintiffs that Erlich had posted messages through Netcom's system that violated plaintiffs' copyrights, instead claiming that it could not

shut out Erlich without shutting out all of the users of Klemesrud's BBS.

b. Creation of Fixed Copies

The Ninth Circuit addressed the question of what constitutes infringement in the context of storage of digital information in a computer's random access memory ("RAM"). *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 (9th Cir.1993). In *MAI*, the Ninth Circuit upheld a finding of copyright infringement where a repair person, who was not authorized to use the computer owner's licensed operating system software, turned on the computer, thus loading the operating system into RAM for long enough to check an "error log." *Id.* at 518-19. Copyright protection subsists in original works of authorship "fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." 17 U.S.C. § 102 (emphasis added). A work is "fixed" when its "embodiment in a copy ... is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." *Id.* § 101. *MAI* established that the loading of data from a storage device into RAM constitutes copying because that data stays in RAM long enough for it to be perceived. *MAI Systems*, 991 F.2d at 518.

[2] In the present case, there is no question after *MAI* that "copies" were created, as Erlich's act of sending a message to a.r.s. caused reproductions of portions of plaintiffs' works on both Klemesrud's and Netcom's storage devices. Even though the messages remained on their systems for at most eleven days, they were sufficiently "fixed" to constitute recognizable copies under the Copyright Act. See Information Infrastructure Task Force, Intellectual Property and the National Information Infrastructure: The Report of the Working Group on Intellectual Property Rights 66 (1995) ("IITF Report").

c. Is Netcom Directly Liable for Making the Copies?

[3] Accepting that copies were made, Netcom argues that Erlich, and not Netcom, is directly liable for the copying. *MAI* did not address the question raised in this case: whether possessors of computers are liable for incidental copies automatically made on their computers using their software as part of a process initiated by a third party. Netcom correctly distinguishes *MAI* on the ground that Netcom did not take any affirmative action that directly resulted in copying plaintiffs' works other than by installing and maintaining a system whereby software automatically forwards messages received from subscribers onto the Usenet, and temporarily stores copies on its system. Netcom's actions, to the extent that they created a copy of plaintiffs' works, were necessary to having a working system for transmitting Usenet postings to and from the Internet. Unlike the defendants in *MAI*, neither Netcom nor Klemesrud initiated the copying. The defendants in *MAI* turned on their customers' computers thereby creating temporary copies of the operating system, whereas Netcom's and Klemesrud's systems can operate without any human intervention. Thus, unlike *MAI*, the mere fact that Netcom's system incidentally makes temporary copies *1369 of plaintiffs' works does not mean Netcom has caused the copying. [FN11] The court believes that Netcom's act of designing or implementing a system that automatically and uniformly creates temporary copies of all data sent through it is not unlike that of the owner of a copying machine who lets the public make copies with it. [FN12] Although some of the people using the machine may directly infringe copyrights, courts analyze the machine owner's liability under the rubric of contributory infringement, not direct infringement. See, e.g., *RCA Records v. All-Fast Systems, Inc.*, 594 F.Supp. 335 (S.D.N.Y.1984); 3 Melville B. Nimmer & David Nimmer, *NIMMER ON COPYRIGHT* § 12.04[A][2][b], at 12-78 to -79 (1995) ("*NIMMER ON COPYRIGHT*"); Elkin-Koren, *supra*, at 363 (arguing that "contributory infringement is more appropriate for dealing with BBS liability, first, because it focuses attention on the BBS-users relationship and the way imposing liability on BBS operators may shape this relationship, and second because it better addresses the complexity of

the relationship between BBS operators and subscribers"). Plaintiffs' theory would create many separate acts of infringement and, carried to its natural extreme, would lead to unreasonable liability. It is not difficult to conclude that Erlich infringes by copying a protected work onto his computer and by posting a message to a newsgroup. However, plaintiffs' theory further implicates a Usenet server that carries Erlich's message to other servers regardless of whether that server acts without any human intervention beyond the initial setting up of the system. It would also result in liability for every single Usenet server in the worldwide link of computers transmitting Erlich's message to every other computer. These parties, who are liable under plaintiffs' theory, do no more *1370 than operate or implement a system that is essential if Usenet messages are to be widely distributed. There is no need to construe the Act to make all of these parties infringers. Although copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant's system is merely used to create a copy by a third party.

FN11. One commentator addressed the difficulty in translating copyright concepts, including the public/private dichotomy, to the digitized environment. See Niva Elkin-Koren, Copyright Law and Social Dialogue on the Information Superhighway: The Case Against Copyright Liability of Bulletin Board Operators, 13 CARDOZO ARTS & ENT.L.J. 345, 390 (1995). This commentator noted that one way to characterize a BBS operation is that it "provides subscribers with access and services. As such, BBS operators do not create copies, and do not transfer them in any way. Users post the copies on the BBS, which other users can then read or download." *Id.* at 356.

FN12. Netcom compares itself to a common carrier that merely acts as a passive conduit for information. In a sense, a Usenet server that forwards all messages acts like a common carrier, passively retransmitting every message that gets sent through it.

Netcom would seem no more liable than the phone company for carrying an infringing facsimile transmission or storing an infringing audio recording on its voice mail. As Netcom's counsel argued, holding such a server liable would be like holding the owner of the highway, or at least the operator of a toll booth, liable for the criminal activities that occur on its roads. Since other similar carriers of information are not liable for infringement, there is some basis for exempting Internet access providers from liability for infringement by their users. The IITF Report concluded that "[i]f an entity provided only the wires and conduits--such as the telephone company, it would have a good argument for an exemption if it was truly in the same position as a common carrier and could not control who or what was on its system." IITF Report at 122. Here, perhaps, the analogy is not completely appropriate as Netcom does more than just "provide the wire and conduits." Further, Internet providers are not natural monopolies that are bound to carry all the traffic that one wishes to pass through them, as with the usual common carrier. See *id.* at 122 n. 392 (citing *Federal Communications Commission v. Midwest Video Corp.*, 440 U.S. 689, 701, 99 S.Ct. 1435, 1442, 59 L.Ed.2d 692 (1979)). Section 111 of the Copyright Act codifies the exemption for passive carriers who are otherwise liable for a secondary transmission. 3 Melville B. Nimmer & David Nimmer, NIMMER ON COPYRIGHT § 12.04[B][3], at 12-99 (1995). However, the carrier must not have any direct or indirect control over the content or selection of the primary transmission. *Id.*; 17 U.S.C. § 111(a)(3). Cf. *infra* part I.B.3.a. In any event, common carriers are granted statutory exemptions for liability that might otherwise exist. Here, Netcom does not fall under this statutory exemption, and thus faces the usual strict liability scheme that exists for copyright. Whether a new exemption

should be carved out for online service providers is to be resolved by Congress, not the courts. Compare Comment, "Online Service Providers and Copyright Law: The Need for Change," 1 SYRACUSE J.LEGIS. & POL'Y 197, 202 (1995) (citing recommendations of online service providers for amending the Copyright Act to create liability only where a "provider has 'actual knowledge that a work that is being or has been transmitted onto, or stored on, its system is infringing,' and has the 'ability and authority' to stop the transmission, and has, after a reasonable amount of time, allowed the infringing activity to continue' ") with IITF Report at 122 (recommending that Congress not exempt service providers from strict liability for direct infringements).

Plaintiffs point out that the infringing copies resided for eleven days on Netcom's computer and were sent out from it onto the "Information Superhighway." However, under plaintiffs' theory, any storage of a copy that occurs in the process of sending a message to the Usenet is an infringement. While it is possible that less "damage" would have been done if Netcom had heeded plaintiffs' warnings and acted to prevent Erlich's message from being forwarded, [FN13] this is not relevant to its direct liability for copying. The same argument is true of Klemesrud and any Usenet server. Whether a defendant makes a direct copy that constitutes infringement cannot depend on whether it received a warning to delete the message. See D.C. Comics, Inc. v. Mini Gift, 912 F.2d 29, 35 (2d Cir.1990). This distinction may be relevant to contributory infringement, however, where knowledge is an element. See *infra* part I.B.2.a.

FN13. The court notes, however, that stopping the distribution of information once it is on the Internet is not easy. The decentralized network was designed so that if one link in the chain be closed off, the information will be dynamically rerouted through another link. This was meant to allow the

system to be used for communication after a catastrophic event that shuts down part of it. Francis Decl. ¶ 4.

The court will now consider two district court opinions that have addressed the liability of BBS operators for infringing files uploaded by subscribers.

d. Playboy Case

Playboy Enterprises, Inc. v. Frena involved a suit against the operator of a small BBS whose system contained files of erotic pictures. 839 F.Supp. 1552, 1554 (M.D.Fla.1993). A subscriber of the defendant's BBS had uploaded files containing digitized pictures copied from the plaintiff's copyrighted magazine, which files remained on the BBS for other subscribers to download. *Id.* The court did not conclude, as plaintiffs suggest in this case, that the BBS is itself liable for the unauthorized reproduction of plaintiffs' work; instead, the court concluded that the BBS operator was liable for violating the plaintiff's right to publicly distribute and display copies of its work. *Id.* at 1556-57.

[4] In support of their argument that Netcom is directly liable for copying plaintiffs' works, plaintiffs cite to the court's conclusion that "[t]here is no dispute that [the BBS operator] supplied a product containing unauthorized copies of a copyrighted work. It does not matter that [the BBS operator] claims he did not make the copies [him]self." *Id.* at 1556. It is clear from the context of this discussion [FN14] that the Playboy court was looking only at the exclusive right to distribute copies to the public, where liability exists regardless of whether the defendant makes copies. Here, however, plaintiffs do not argue that Netcom is liable for its public distribution of copies. Instead, they claim that Netcom is liable because its computers in fact made copies. Therefore, the above-quoted language has no bearing on the issue of direct liability for unauthorized reproductions. Notwithstanding Playboy's holding that a BBS operator may be directly liable for distributing or displaying to the public copies of protected works, [FN15] this court holds ***1371** that the storage on a defendant's system of infringing copies and

retransmission to other servers is not a direct infringement by the BBS operator of the exclusive right to reproduce the work where such copies are uploaded by an infringing user. Playboy does not hold otherwise. [FN16]

FN14. The paragraph in Playboy containing the quotation begins with a description of the right of public distribution. *Id.* Further, the above quoted language is followed by a citation to a discussion of the right of public distribution in Jay Dratler, Jr., *INTELLECTUAL PROPERTY LAW: COMMERCIAL, CREATIVE AND INDUSTRIAL PROPERTY* § 6.01[3], at 6-15 (1991). This treatise states that "the distribution right may be decisive, if, for example, a distributor supplies products containing unauthorized copies of a copyrighted work but has not made the copies itself." *Id.* (citing to *Williams Electronics, Inc. v. Artic International, Inc.*, 685 F.2d 870, 876 (3d Cir.1982)). In any event, the Williams holding regarding public distribution was dicta, as the court found that the defendant had also made copies. *Id.*

FN15. Given the ambiguity in plaintiffs' reference to a violation of the right to "publish" and to Playboy, it is possible that plaintiffs are also claiming that Netcom infringed their exclusive right to publicly distribute their works. The court will address this argument *infra*.

FN16. The court further notes that Playboy has been much criticized. See, e.g., L. Rose, *NETLAW* 91-92 (1995). The finding of direct infringement was perhaps influenced by the fact that there was some evidence that defendants in fact knew of the infringing nature of the works, which were digitized photographs labeled "Playboy" and "Playmate."

e. Sega Case

A court in this district addressed the issue of whether a BBS operator is liable for copyright

infringement where it solicited subscribers to upload files containing copyrighted materials to the BBS that were available for others to download. *Sega Enterprises Ltd. v. MAPHIA*, 857 F.Supp. 679, 683 (N.D.Cal.1994). The defendant's "MAPHIA" BBS contained copies of plaintiff Sega's video game programs that were uploaded by users. *Id.* at 683. The defendant solicited the uploading of such programs and received consideration for the right to download files. *Id.* Access was given for a fee or to those purchasing the defendant's hardware device that allowed Sega video game cartridges to be copied. *Id.* at 683-84. The court granted a preliminary injunction against the defendant, finding that plaintiffs had shown a *prima facie* case of direct and contributory infringement. *Id.* at 687. The court found that copies were made by unknown users of the BBS when files were uploaded and downloaded. *Id.* Further, the court found that the defendant's knowledge of the infringing activities, encouragement, direction and provision of the facilities through his operation of the BBS constituted contributory infringement, even though the defendant did not know exactly when files were uploaded or downloaded. *Id.* at 686-87.

This court is not convinced that Sega provides support for a finding of direct infringement where copies are made on a defendant's BBS by users who upload files. Although there is some language in Sega regarding direct infringement, it is entirely conclusory:

Sega has established a *prima facie* case of direct copyright infringement under 17 U.S.C. § 501. Sega has established that unauthorized copies of its games are made when such games are uploaded to the MAPHIA bulletin board, here with the knowledge of Defendant Scherman. These games are thereby placed on the storage media of the electronic bulletin board by unknown users.

Id. at 686 (emphasis added). The court's reference to the "knowledge of Defendant" indicates that the court was focusing on contributory infringement, as knowledge is not an element of direct infringement. Perhaps, Sega's references to direct infringement and that "copies ... are made" are to the direct liability of the "unknown users," as there can

be no contributory infringement by a defendant without direct infringement by another. See 3 NIMMER ON COPYRIGHT § 12.04[A][3][a], at 12-89. Thus, the court finds that neither Playboy nor Sega requires finding Netcom liable for direct infringement of plaintiffs' exclusive right to reproduce their works. [FN17]

FN17. To the extent that Sega holds that BBS operators are directly liable for copyright infringement when users upload infringing works to their systems, this court respectfully disagrees with the court's holding for the reasons discussed above. Further, such a holding was dicta, as there was evidence that the defendant knew of the infringing uploads by users and, in fact, actively encouraged such activity, thus supporting the contributory infringement theory. *Id.* at 683.

f. Public Distribution and Display?

[5] Plaintiffs allege that Netcom is directly liable for making copies of their works. See FAC ¶ 25. They also allege that Netcom violated their exclusive rights to publicly display copies of their works. FAC ¶¶ 44, 51. There are no allegations that Netcom violated plaintiffs' exclusive right to publicly distribute their works. However, in their discussion of direct infringement, plaintiffs insist that Netcom is liable for "maintain[ing] copies of [Erich's] messages on its server for eleven days for access by its subscribers and 'USENET neighbors' " and they compare this case to the Playboy case, which discussed *1372 the right of public distribution. Opp'n at 7. Plaintiffs also argued this theory of infringement at oral argument. Tr. [FN18] 5:22. Because this could be an attempt to argue that Netcom has infringed plaintiffs' rights of public distribution and display, the court will address these arguments.

FN18. References to "Tr." are to the reporter's transcript of the June 23, 1995 hearing on these motions.

Playboy concluded that the defendant infringed the plaintiff's exclusive rights to

publicly distribute and display copies of its works. 839 F.Supp. at 1556-57. The court is not entirely convinced that the mere possession of a digital copy on a BBS that is accessible to some members of the public constitutes direct infringement by the BBS operator. Such a holding suffers from the same problem of causation as the reproduction argument. Only the subscriber should be liable for causing the distribution of plaintiffs' work, as the contributing actions of the BBS provider are automatic and indiscriminate. Erlich could have posted his messages through countless access providers and the outcome would be the same: anyone with access to Usenet newsgroups would be able to read his messages. There is no logical reason to draw a line around Netcom and Klemesrud and say that they are uniquely responsible for distributing Erlich's messages. Netcom is not even the first link in the chain of distribution--Erich had no direct relationship with Netcom but dealt solely with Klemesrud's BBS, which used Netcom to gain its Internet access. Every Usenet server has a role in the distribution, so plaintiffs' argument would create unreasonable liability. Where the BBS merely stores and passes along all messages sent by its subscribers and others, the BBS should not be seen as causing these works to be publicly distributed or displayed.

Even accepting the Playboy court's holding, the case is factually distinguishable. Unlike the BBS in that case, Netcom does not maintain an archive of files for its users. Thus, it cannot be said to be "suppl[y]ing a product." In contrast to some of its larger competitors, Netcom does not create or control the content of the information available to its subscribers; it merely provides access to the Internet, whose content is controlled by no single entity. Although the Internet consists of many different computers networked together, some of which may contain infringing files, it does not make sense to hold the operator of each computer liable as an infringer merely because his or her computer is linked to a computer with an infringing file. It would be especially inappropriate to hold liable a service that acts more like a conduit, in other words, one that does not itself keep an archive of files for more than a short duration.

Finding such a service liable would involve an unreasonably broad construction of public distribution and display rights. No purpose would be served by holding liable those who have no ability to control the information to which their subscribers have access, even though they might be in some sense helping to achieve the Internet's automatic "public distribution" and the users' "public" display of files.

g. Conclusion

The court is not persuaded by plaintiffs' argument that Netcom is directly liable for the copies that are made and stored on its computer. Where the infringing subscriber is clearly directly liable for the same act, it does not make sense to adopt a rule that could lead to the liability of countless parties whose role in the infringement is nothing more than setting up and operating a system that is necessary for the functioning of the Internet. Such a result is unnecessary as there is already a party directly liable for causing the copies to be made. Plaintiffs occasionally claim that they only seek to hold liable a party that refuses to delete infringing files after they have been warned. However, such liability cannot be based on a theory of direct infringement, where knowledge is irrelevant. The court does not find workable a theory of infringement that would hold the entire Internet liable for activities that cannot reasonably be deterred. Billions of bits of data flow through the Internet and are necessarily stored on servers throughout the network and it is thus practically impossible ***1373** to screen out infringing bits from noninfringing bits. Because the court cannot see any meaningful distinction (without regard to knowledge) between what Netcom did and what every other Usenet server does, the court finds that Netcom cannot be held liable for direct infringement. Cf. IITF Report at 69 (noting uncertainty regarding whether BBS operator should be directly liable for reproduction or distribution of files uploaded by a subscriber). [FN19]

FN19. Despite that uncertainty, the IITF Report recommends a strict liability paradigm for BBS operators. See IITF Report at 122-24. It

recommends that Congress not exempt on-line service providers from strict liability because this would prematurely deprive the system of an incentive to get providers to reduce the damage to copyright holders by reducing the chances that users will infringe by educating them, requiring indemnification, purchasing insurance, and, where efficient, developing technological solutions to screening out infringement. Denying strict liability in many cases would leave copyright owners without an adequate remedy since direct infringers may act anonymously or pseudonymously or may not have the resources to pay a judgment. *Id.*; see also Hardy, *supra*.

2. Contributory Infringement

[6] Netcom is not free from liability just because it did not directly infringe plaintiffs' works; it may still be liable as a contributory infringer. Although there is no statutory rule of liability for infringement committed by others,

[t]he absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringement on certain parties who have not themselves engaged in the infringing activity. For vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.

Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 435, 104 S.Ct. 774, 785, 78 L.Ed.2d 574 (1984) (footnote omitted). Liability for participation in the infringement will be established where the defendant, "with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another." *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir.1971).

a. Knowledge of Infringing Activity

[7] Plaintiffs insist that Netcom knew that Erlich was infringing their copyrights at least after receiving notice from plaintiffs' counsel

indicating that Erlich had posted copies of their works onto a.r.s. through Netcom's system. Despite this knowledge, Netcom continued to allow Erlich to post messages to a.r.s. and left the allegedly infringing messages on its system so that Netcom's subscribers and other Usenet servers could access them. Netcom argues that it did not possess the necessary type of knowledge because (1) it did not know of Erlich's planned infringing activities when it agreed to lease its facilities to Klemesrud, (2) it did not know that Erlich would infringe prior to any of his postings, (3) it is unable to screen out infringing postings before they are made, and (4) its knowledge of the infringing nature of Erlich's postings was too equivocal given the difficulty in assessing whether the registrations were valid and whether Erlich's use was fair. The court will address these arguments in turn.

[8] Netcom cites cases holding that there is no contributory infringement by the lessors of premises that are later used for infringement unless the lessor had knowledge of the intended use at the time of the signing of the lease. See, e.g. *Deutsch v. Arnold*, 98 F.2d 686, 688 (2d Cir.1938). [FN20] The contribution to the infringement by the defendant in *Deutsch* was merely to lease use of the premises to the infringer. Here, Netcom not only leases space but also serves as an access provider, which includes the storage and transmission of information necessary to facilitate ***1374** Erlich's postings to a.r.s. Unlike a landlord, Netcom retains some control over the use of its system. See *infra* part I.B.3.a. Thus, the relevant time frame for knowledge is not when Netcom entered into an agreement with Klemesrud. It should be when Netcom provided its services to allow Erlich to infringe plaintiffs' copyrights. Cf. *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F.Supp. 399, 403 (S.D.N.Y.1966) (analyzing knowledge at time that defendant rendered its particular service). It is undisputed that Netcom did not know that Erlich was infringing before it received notice from plaintiffs. Netcom points out that the alleged instances of infringement occurring on Netcom's system all happened prior to December 29, 1994, the date on which Netcom first received notice of plaintiffs'

infringement claim against Erlich. See Pisani Feb. 8, 1995 Decl., ¶ 6 & Exs. (showing latest posting made on December 29, 1994); McShane Feb. 8, 1995 Decl.; FAC ¶¶ 36-38 & Ex. I. Thus, there is no question of fact as to whether Netcom knew or should have known of Erlich's infringing activities that occurred more than 11 days before receipt of the December 28, 1994 letter.

FN20. Adopting such a rule would relieve a BBS of liability for failing to take steps to remove infringing works from its system even after being handed a court's order finding infringement. This would be undesirable and is inconsistent with Netcom's counsel's admission that Netcom would have an obligation to act in such circumstances. Tr. 35:25; see also Tr. 42:18- 42:20.

However, the evidence reveals a question of fact as to whether Netcom knew or should have known that Erlich had infringed plaintiffs' copyrights following receipt of plaintiffs' letter. Because Netcom was arguably participating in Erlich's public distribution of plaintiffs' works, there is a genuine issue as to whether Netcom knew of any infringement by Erlich before it was too late to do anything about it. If plaintiffs can prove the knowledge element, Netcom will be liable for contributory infringement since its failure to simply cancel Erlich's infringing message and thereby stop an infringing copy from being distributed worldwide constitutes substantial participation in Erlich's public distribution of the message. Cf. R.T. Nimmer, *THE LAW OF COMPUTER TECHNOLOGY* ¶ 15.11B, at S15-42 (2d ed. 1994) (opining that "where information service is less directly involved in the enterprise of creating unauthorized copies, a finding of contributory infringement is not likely").

[9] Netcom argues that its knowledge after receiving notice of Erlich's alleged infringing activities was too equivocal given the difficulty in assessing whether registrations are valid and whether use is fair. Although a mere unsupported allegation of infringement by a copyright owner may not automatically put a defendant on notice of infringing activity, Netcom's position that liability must be

unequivocal is unsupportable. While perhaps the typical infringing activities of BBSs will involve copying software, where BBS operators are better equipped to judge infringement, the fact that this involves written works should not distinguish it. Where works contain copyright notices within them, as here, it is difficult to argue that a defendant did not know that the works were copyrighted. To require proof of valid registrations would be impractical and would perhaps take too long to verify, making it impossible for a copyright holder to protect his or her works in some cases, as works are automatically deleted less than two weeks after they are posted. The court is more persuaded by the argument that it is beyond the ability of a BBS operator to quickly and fairly determine when a use is not infringement where there is at least a colorable claim of fair use. Where a BBS operator cannot reasonably verify a claim of infringement, either because of a possible fair use defense, the lack of copyright notices on the copies, or the copyright holder's failure to provide the necessary documentation to show that there is a likely infringement, the operator's lack of knowledge will be found reasonable and there will be no liability for contributory infringement for allowing the continued distribution of the works on its system.

Since Netcom was given notice of an infringement claim before Erlich had completed his infringing activity, there may be a question of fact as to whether Netcom knew or should have known that such activities were infringing. Given the context of a dispute between a former minister and a church he is criticizing, Netcom may be able to show that its lack of knowledge that Erlich was infringing was reasonable. However, Netcom admits that it did not even look at the postings once given notice and that had it looked at the copyright notice and statements ***1375** regarding authorship, it would have triggered an investigation into whether there was infringement. Kobrin June 7, 1995 Decl., Ex. H, Hoffman Depo. At 125-128. These facts are sufficient to raise a question as to Netcom's knowledge once it received a letter from plaintiffs on December 29, 1994. [FN21]

FN21. The court does not see the relevance of plaintiffs' argument that Netcom's failure to investigate their claims of infringement or take actions against Erlich was a departure from Netcom's normal procedure. A policy and practice of acting to stop postings where there is inadequate knowledge of infringement in no way creates a higher standard of care under the Copyright Act as to subsequent claims of user infringement.

b. Substantial Participation

[10] Where a defendant has knowledge of the primary infringer's infringing activities, it will be liable if it "induces, causes or materially contributes to the infringing conduct of" the primary infringer. *Gershwin Publishing*, 443 F.2d at 1162. Such participation must be substantial. *Apple Computer, Inc. v. Microsoft Corp.*, 821 F.Supp. 616, 625 (N.D.Cal.1993), *aff'd*, 35 F.3d 1435 (9th Cir.1994); *Demetriades v. Kaufmann*, 690 F.Supp. 289, 294 (S.D.N.Y.1988).

[11] Providing a service that allows for the automatic distribution of all Usenet postings, infringing and noninfringing, goes well beyond renting a premises to an infringer. See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F.Supp. 1492, 1496 (E.D.Cal.1994) (finding that renting space at swap meet to known bootleggers not "substantial participation" in the infringers' activities). It is more akin to the radio stations that were found liable for rebroadcasting an infringing broadcast. See, e.g., *Select Theatres Corp. v. Ronzoni Macaroni Corp.*, 59 U.S.P.Q. 288, 291 (S.D.N.Y.1943). Netcom allows Erlich's infringing messages to remain on its system and be further distributed to other Usenet servers worldwide. It does not completely relinquish control over how its system is used, unlike a landlord. Thus, it is fair, assuming Netcom is able to take simple measures to prevent further damage to plaintiffs' copyrighted works, to hold Netcom liable for contributory infringement where Netcom has knowledge of Erlich's infringing postings yet continues to aid in the accomplishment of Erlich's purpose of publicly distributing the postings. Accordingly, plaintiffs do raise a

genuine issue of material fact as to their theory of contributory infringement as to the postings made after Netcom was on notice of plaintiffs' infringement claim.

3. Vicarious Liability

[12][13] Even if plaintiffs cannot prove that Netcom is contributorily liable for its participation in the infringing activity, it may still seek to prove vicarious infringement based on Netcom's relationship to Erlich. A defendant is liable for vicarious liability for the actions of a primary infringer where the defendant (1) has the right and ability to control the infringer's acts and (2) receives a direct financial benefit from the infringement. See *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 306 (2d Cir.1963). Unlike contributory infringement, knowledge is not an element of vicarious liability. 3 NIMMER ON COPYRIGHT § 12.04[A][1], at 12-70.

a. Right and Ability To Control

[14] The first element of vicarious liability will be met if plaintiffs can show that Netcom has the right and ability to supervise the conduct of its subscribers. Netcom argues that it does not have the right to control its users' postings before they occur. Plaintiffs dispute this and argue that Netcom's terms and conditions, to which its subscribers [FN22] must agree, specify that Netcom reserves the right to take remedial action against subscribers. See, e.g., Francis Depo. at 124-126. Plaintiffs argue that under "netiquette," the informal rules and customs that have developed on the Internet, violation of copyrights by a user is unacceptable and the access provider has a duty take measures to prevent this; where the immediate service *1376 provider fails, the next service provider up the transmission stream must act. See Castleman Decl. ¶¶ 32-43. Further evidence of Netcom's right to restrict infringing activity is its prohibition of copyright infringement and its requirement that its subscribers indemnify it for any damage to third parties. See Kobrin May 5, 1995 Decl., Ex. G. Plaintiffs have thus raised a question of fact as to Netcom's right to control Erlich's use of its services.

FN22. In this case, Netcom is even further removed from Erlich's activities. Erlich was in a contractual relationship only with Klemesrud. Netcom thus dealt directly only with Klemesrud. However, it is not crucial that Erlich does not obtain access directly through Netcom. The issue is Netcom's right and ability to control the use of its system, which it can do indirectly by controlling Klemesrud's use.

Netcom argues that it could not possibly screen messages before they are posted given the speed and volume of the data that goes through its system. Netcom further argues that it has never exercised control over the content of its users' postings. Plaintiffs' expert opines otherwise, stating that with an easy software modification Netcom could identify postings that contain particular words or come from particular individuals. Castleman Decl. ¶¶ 39-43; see also Francis Depo. at 262-63; Hoffman Depo. at 173-74, 178. [FN23] Plaintiffs further dispute Netcom's claim that it could not limit Erlich's access to Usenet without kicking off all 500 subscribers of Klemesrud's BBS. As evidence that Netcom has in fact exercised its ability to police its users' conduct, plaintiffs cite evidence that Netcom has acted to suspend subscribers' accounts on over one thousand occasions. See Ex. J (listing suspensions of subscribers by Netcom for commercial advertising, posting obscene materials, and off-topic postings). Further evidence shows that Netcom can delete specific postings. See Tr. 9:16. Whether such sanctions occurred before or after the abusive conduct is not material to whether Netcom can exercise control. The court thus finds that plaintiffs have raised a genuine issue of fact as to whether Netcom has the right and ability to exercise control over the activities of its subscribers, and of Erlich in particular.

FN23. However, plaintiffs submit no evidence indicating Netcom, or anyone, could design software that could determine whether a posting is infringing.

b. Direct Financial Benefit

[15] Plaintiffs must further prove that Netcom receives a direct financial benefit from the infringing activities of its users. For example, a landlord who has the right and ability to supervise the tenant's activities is vicariously liable for the infringements of the tenant where the rental amount is proportional to the proceeds of the tenant's sales. *Shapiro, Bernstein*, 316 F.2d at 306. However, where a defendant rents space or services on a fixed rental fee that does not depend on the nature of the activity of the lessee, courts usually find no vicarious liability because there is no direct financial benefit from the infringement. See, e.g., *Roy Export Co. v. Trustees of Columbia University*, 344 F.Supp. 1350, 1353 (S.D.N.Y.1972) (finding no vicarious liability of university because no financial benefit from allowing screening of bootlegged films); *Fonovisa*, 847 F.Supp. at 1496 (finding swap meet operators did not financially benefit from fixed fee); see also Kelly Tickle, Comment, *The Vicarious Liability of Electronic Bulletin Board Operators for the Copyright Infringement Occurring on Their Bulletin Boards*, 80 IOWA L.REV. 391, 415 (1995) (arguing that BBS operators "lease cyberspace" and should thus be treated like landlords, who are not liable for infringement that occurs on their premises).

Plaintiffs argue that courts will find a financial benefit despite fixed fees. In *Polygram International Publishing, Inc. v. Nevada/TIG, Inc.*, 855 F.Supp. 1314, 1330-33 (D.Mass.1994), the court found a trade show organizer vicariously liable for the infringing performance of an exhibitor because, although the infringement did not affect the fixed rental fee received by the organizers, the organizers benefitted from the performances, which helped make the show a financial success. But see *Artists Music, Inc. v. Reed Publishing, Inc.*, 31 U.S.P.Q.2d 1623, 1994 WL 191643, at *6 (S.D.N.Y.1994) (finding no vicarious liability for trade show organizers where revenues not increased because of infringing music performed by exhibitors). Plaintiffs cite two other cases where, despite fixed fees, defendants received financial benefits from allowing groups to perform infringing works over the radio without having

to get an ASCAP license, which minimized the defendants' expenses. See *Boz Scaggs Music v. KND Corp*, 491 F.Supp. 908, 913 (D.Conn.1980); *Realsongs v. Gulf Broadcasting *1377 Corp.*, 824 F.Supp. 89, 92 (M.D.La.1993). Plaintiffs' cases are factually distinguishable. Plaintiffs cannot provide any evidence of a direct financial benefit received by Netcom from Erlich's infringing postings. Unlike *Shapiro, Bernstein*, and like *Fonovisa*, Netcom receives a fixed fee. There is no evidence that infringement by Erlich, or any other user of Netcom's services, in any way enhances the value of Netcom's services to subscribers or attracts new subscribers. Plaintiffs argue, however, that Netcom somehow derives a benefit from its purported "policy of refusing to take enforcement actions against its subscribers and others who transmit infringing messages over its computer networks." Opp'n at 18. Plaintiffs point to Netcom's advertisements that, compared to competitors like CompuServe and America Online, Netcom provides easy, regulation-free Internet access. Plaintiffs assert that Netcom's policy attracts copyright infringers to its system, resulting in a direct financial benefit. The court is not convinced that such an argument, if true, would constitute a direct financial benefit to Netcom from Erlich's infringing activities. See *Fonovisa*, 847 F.Supp. at 1496 (finding no direct financial benefit despite argument that lessees included many vendors selling counterfeit goods and that clientele sought "bargain basement prices"). Further, plaintiffs' argument is not supported by probative evidence. The only "evidence" plaintiffs cite for their supposition is the declaration of their counsel, Elliot Abelson, who states that

[o]n April 7, 1995, in a conversation regarding Netcom's position related to this case, Randolph Rice, attorney for Netcom, informed me that Netcom's executives are happy about the publicity it is receiving in the press as a result of this case. Mr. Rice also told me that Netcom was concerned that it would lose business if it took action against Erlich or Klemesrud in connection with Erlich's infringements.

Abelson Decl. ¶ 2. Netcom objects to this declaration as hearsay and as inadmissible evidence of statements made in compromise negotiations. Fed.R.Ev. 801, 408. Whether or

not this declaration is admissible, it does not support plaintiffs' argument that Netcom either has a policy of not enforcing violations of copyright laws by its subscribers or, assuming such a policy exists, that Netcom's policy directly financially benefits Netcom, such as by attracting new subscribers. Because plaintiffs have failed to raise a question of fact on this vital element, their claim of vicarious liability fails. See *Roy Export*, 344 F.Supp. at 1353.

4. First Amendment Argument

[16] Netcom argues that plaintiffs' theory of liability contravenes the first amendment, as it would chill the use of the Internet because every access provider or user would be subject to liability when a user posts an infringing work to a Usenet newsgroup. While the court agrees that an overbroad injunction might implicate the First Amendment, see *In re Capital Cities/ABC, Inc.*, 918 F.2d 140, 144 (11th Cir.1990), [FN24] imposing liability for infringement where it is otherwise appropriate does not necessarily raise a First Amendment issue. The copyright concepts of the idea/expression dichotomy and the fair use defense balance the important First Amendment rights with the constitutional authority for "promot[ing] the progress of science and useful arts," U.S. Const. art. I, § 8, cl. 8; 1 Nimmer on Copyright § 1.10[B], at 1-71 to -83. Netcom argues that liability here would force Usenet servers to perform the impossible--screening all the information that comes through their systems. However, the court is not convinced that Usenet servers are directly liable for causing a copy to be made, and absent evidence of knowledge and participation or control and direct profit, they will not be contributorily or vicariously liable. If Usenet servers were responsible for screening all messages coming through their systems, this could have a serious chilling effect on what some say may turn out to be the best public forum for free speech yet devised. See Jerry Berman & Daniel J. Weitzner, *Abundance and User Control: Renewing the Democratic Heart of the First Amendment in the Age of Interactive Media*, 104 Yale L.J. 1619, 1624 (1995) (praising decentralized networks for opening access to all with no entity stifling independent sources

of speech); *Rose*, supra, at 4. [FN25] Finally, Netcom admits that its First Amendment argument is merely a consideration in the fair use argument, which the court will now address. See Reply at 24.

FN24. For example, plaintiffs' demand that the court order Netcom to terminate Klemesrud's BBS's access to the Internet, thus depriving all 500 of his subscribers, would be overbroad, as it would unnecessarily keep hundreds of users, against whom there are no allegations of copyright infringement, from accessing a means of speech. The overbreadth is even more evident if, as plaintiffs contend, there is a way to restrict only Erlich's access to a.r.s.

FN25. Netcom additionally argues that plaintiffs' theory of liability would have a chilling effect on users, who would be liable for merely browsing infringing works. Browsing technically causes an infringing copy of the digital information to be made in the screen memory. MAI holds that such a copy is fixed even when information is temporarily placed in RAM, such as the screen RAM. The temporary copying involved in browsing is only necessary because humans cannot otherwise perceive digital information. It is the functional equivalent of reading, which does not implicate the copyright laws and may be done by anyone in a library without the permission of the copyright owner. However, it can be argued that the effects of digital browsing are different because millions can browse a single copy of a work in cyberspace, while only one can read a library's copy at a time.

Absent a commercial or profit-depriving use, digital browsing is probably a fair use; there could hardly be a market for licensing the temporary copying of digital works onto computer screens to allow browsing. Unless such a use is commercial, such as where someone reads a copyrighted work online and

therefore decides not to purchase a copy from the copyright owner, fair use is likely. Until reading a work online becomes as easy and convenient as reading a paperback, copyright owners do not have much to fear from digital browsing and there will not likely be much market effect. Additionally, unless a user has reason to know, such as from the title of a message, that the message contains copyrighted materials, the browser will be protected by the innocent infringer doctrine, which allows the court to award no damages in appropriate circumstances. In any event, users should hardly worry about a finding of direct infringement; it seems highly unlikely from a practical matter that a copyright owner could prove such infringement or would want to sue such an individual.

5. Fair Use Defense

[17] Assuming plaintiffs can prove a violation of one of the exclusive rights guaranteed in section 106, there is no infringement if the defendant's use is fair under section 108. The proper focus here is on whether Netcom's actions qualify as fair use, not on whether Erlich himself engaged in fair use; the court has already found that Erlich was not likely entitled to his own fair use defense, as his postings contained large portions of plaintiffs' published and unpublished works quoted verbatim with little added commentary.

Although the author has the exclusive rights to reproduce, publicly distribute, and publicly display a copyrighted work under section 106, these rights are limited by the defense of "fair use." 17 U.S.C. § 107. The defense "permits and requires courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster." *Campbell v. Acuff-Rose Music, Inc.*, --- U.S. ----, ----, 114 S.Ct. 1164, 1170, 127 L.Ed.2d 500 (1994) (citation omitted). Congress has set out four nonexclusive factors to be considered in determining the availability of the fair use defense:

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

17 U.S.C. § 107. The fair use doctrine calls for a case-by-case analysis. *Campbell*, 510 U.S. at ----, 114 S.Ct. at 1170. All of the factors "are to be explored, and the results weighed together, in light of the purposes of copyright." *Id.* at ---- - ----, 114 S.Ct. at 1170-71.

a. First Factor: Purpose and Character of the Use

The first statutory factor looks to the purpose and character of the defendant's use. Netcom's use of plaintiffs' works is to carry out its commercial function as an Internet access provider. Such a use, regardless of *1379 the underlying uses made by Netcom's subscribers, is clearly commercial. Netcom's use, though commercial, also benefits the public in allowing for the functioning of the Internet and the dissemination of other creative works, a goal of the Copyright Act. See *Sega v. Accolade*, 977 F.2d 1510, 1523 (9th Cir.1992) (holding that intermediate copying to accomplish reverse engineering of software fair use despite commercial nature of activity; considering public benefit of use). The *Campbell* Court emphasized that a commercial use does not dictate against a finding of fair use, as most of the uses listed in the statute are "generally conducted for profit in this country." 510 U.S. at ----, 114 S.Ct. at 1174. Although Netcom gains financially from its distribution of messages to the Internet, its financial incentive is unrelated to the infringing activity and the defendant receives no direct financial benefit from the acts of infringement. Therefore, the commercial nature of the defendant's activity should not be dispositive. Moreover, there is no easy way for a defendant like Netcom to secure a license for carrying every possible type of copyrighted work onto the Internet. Thus, it should not be seen as "profit[ing] from

the exploitation of the copyrighted work without paying the customary prices." *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 562, 105 S.Ct. 2218, 2231, 85 L.Ed.2d 588 (1985). It is undisputed that, unlike the defendants in *Playboy* and *Sega*, Netcom does not directly gain anything from the content of the information available to its subscribers on the Internet. See *supra* part I.B.3.b. Because it does not itself provide the files or solicit infringing works, its purpose is different from that of the defendants in *Playboy* and *Sega*. Because Netcom's use of copyrighted materials served a completely different function than that of the plaintiffs, this factor weighs in Netcom's favor, see *Hustler Magazine, Inc. v. Moral Majority, Inc.*, 606 F.Supp. 1526, 1535 (C.D.Cal.1985), *aff'd*, 796 F.2d 1148 (9th Cir.1986), notwithstanding the otherwise commercial nature of Netcom's use.

b. Second Factor: Nature of the Copyrighted Work

The second factor focuses on two different aspects of the copyrighted work: whether it is published or unpublished and whether it is informational or creative. [FN26] Plaintiffs rely on the fact that some of the works transmitted by Netcom were unpublished and some were arguably highly creative and original. However, because Netcom's use of the works was merely to facilitate their posting to the Usenet, which is an entirely different purpose than plaintiffs' use (or, for that matter, Erlich's use), the precise nature of those works is not important to the fair use determination. See *Campbell*, 510 U.S. at ---, 114 S.Ct. at 1175 (finding creative nature of work copied irrelevant where copying for purposes of parody); *Hustler Magazine*, 606 F.Supp. at 1537; 3 NIMMER ON COPYRIGHT § 13.05[A][2][a], at 13-177 ("It is sometimes necessary, in calibrating the fair use defense, to advert to the defendant's usage simultaneously with the nature of the plaintiff's work.").

FN26. A recent report noted that a third aspect of the nature of the work may be relevant: whether it is in digital or analog form. IITF Report at 78. Although the copyright laws were

developed before digital works existed, they have certainly evolved to include such works, and this court can see no reason why works should deserve less protection because they are in digital form, especially where, as here, they were not put in such form by plaintiffs.

c. Third Factor: Amount and Substantiality of the Portion Used

The third factor concerns both the percentage of the original work that was copied and whether that portion constitutes the "heart" of the copyrighted work. *Harper & Row*, 471 U.S. at 564-65, 105 S.Ct. at 2232-33. Generally, no more of a work may be copied than is necessary for the particular use. See *Supermarket of Homes v. San Fernando Valley Board of Realtors*, 786 F.2d 1400, 1409 (9th Cir.1986). The copying of an entire work will ordinarily militate against a finding of fair use, although this is not a per se rule. *Sony*, 464 U.S. at 449-450, 104 S.Ct. at 792-793.

[18] Plaintiffs have shown that Erlich's postings copied substantial amounts of the originals or, in some cases, the entire works. Netcom, of course, made available to the *1380 Usenet exactly what was posted by Erlich. As the court found in *Sony*, the mere fact that all of a work is copied is not determinative of the fair use question, where such total copying is essential given the purpose of the copying. *Id.* (allowing total copying in context of time-shifting copyrighted television shows by home viewers). For example, where total copying was necessary to carry out the defendants' beneficial purpose of reverse engineering software to get at the ideas found in the source code, the court found fair use. *Sega v. Accolade*, 977 F.2d at 1526-27. Here, Netcom copied no more of plaintiffs' works than necessary to function as a Usenet server. Like the defendant in *Sega v. Accolade*, Netcom had no practical alternative way to carry out its socially useful purpose; a Usenet server must copy all files, since the prescreening of postings for potential copyright infringement is not feasible. 977 F.2d at 1526. Accordingly, this factor should not defeat an otherwise valid defense.

d. Fourth Factor: Effect of the Use upon the Potential Market for the Work

The fourth and final statutory factor concerns "the extent of market harm caused by the particular actions of the alleged infringer" and "whether unrestricted and widespread conduct of the sort engaged in by the defendant ... would result in a substantially adverse impact on the potential market' for the original." Campbell, 510 U.S. at ----, 114 S.Ct. at 1177 (quoting 3 NIMMER ON COPYRIGHT § 13.05[A][4]) (remanding for consideration of this factor). Although the results of all four factors must be weighed together, id. at ----, 114 S.Ct. at 1171, the fourth factor is the most important consideration, 3 NIMMER ON COPYRIGHT § 13.05[A][4], at 13-188 to -189 (citing Harper & Row, 471 U.S. at 566, 105 S.Ct. at 2233), 13-207 (observing that fourth factor explains results in recent Supreme Court cases).

Netcom argues that there is no evidence that making accessible plaintiffs' works, which consist of religious scriptures and policy letters, will harm the market for these works by preventing someone from participating in the Scientology religion because they can view the works on the Internet instead. Further, Netcom notes that the relevant question is whether the postings fulfill the demand of an individual who seeks to follow the religion's teachings, and not whether they suppress the desire of an individual who is affected by the criticism posted by Erlich. Netcom argues that the court must focus on the "normal market" for the copyrighted work, which in this case is through a Scientology-based organization. Plaintiffs respond that the Internet's extremely widespread distribution--where more than 25 million people worldwide have access--multiplies the effects of market substitution. In support of its motion for a preliminary injunction against Erlich, plaintiffs submitted declarations regarding the potential effect of making the Church's secret scriptures available over the Internet. Plaintiffs point out that, although the Church currently faces no competition, groups in the past have used stolen copies of the Church's scriptures in charging for Scientology-like religious training. See, e.g., Bridge

Publications, Inc. v. Vien, 827 F.Supp. 629, 633-34 (S.D.Cal.1993); Religious Technology Center v. Wollersheim, 796 F.2d 1076, 1078-79 (9th Cir.1986), cert. denied, 479 U.S. 1103, 107 S.Ct. 1336, 94 L.Ed.2d 187 (1987). This evidence raises a genuine issue as to the possibility that Erlich's postings, made available over the Internet by Netcom, could hurt the market for plaintiffs' works.

e. Equitable Balancing

In balancing the various factors, the court finds that there is a question of fact as to whether there is a valid fair use defense. Netcom has not justified its copying plaintiffs' works to the extent necessary to establish entitlement to summary judgment in light of evidence that it knew that Erlich's use was infringing and had the ability to prevent its further distribution. While copying all or most of a work will often preclude fair use, courts have recognized the fair use defense where the purpose of the use is beneficial to society, complete copying is necessary given the type of use, the purpose of the use is completely different than the purpose of the original, and there is no evidence that the use will significantly harm the market for the original. This case is distinguishable from those cases recognizing fair use ***1381** despite total copying. In Sony, the home viewers' use was not commercial and the viewers were allowed to watch the entire shows for free. In Sega v. Accolade, the complete copying was necessitated to access the unprotectable idea in the original. Here, plaintiffs never gave either Erlich or Netcom permission to view or copy their works. Netcom's use has some commercial aspects. Further, Netcom's copying is not for the purpose of getting to the unprotected idea behind plaintiffs' works. Although plaintiffs may ultimately lose on their infringement claims if, among other things, they cannot prove that posting their copyrighted works will harm the market for these works, see Religious Technology Center v. Lerma, 897 F.Supp. 260, 263 (E.D.Va.1995) (finding fair use defense exists where no separate market for works because Scientologists cannot effectively use them without the Church's supervision); Religious Technology Center v. F.A.C.T.NET, Inc., 901 F.Supp. 1519, 1522-26 (D.Colo. September 15, 1995) (finding no showing of a potential

effect on the market for plaintiffs' works), fair use presents a factual question on which plaintiffs have at least raised a genuine issue of fact. Accordingly, the court does not find that Netcom's use was fair as a matter of law.

C. Conclusion

The court finds that plaintiffs have raised a genuine issue of fact regarding whether Netcom should have known that Erlich was infringing their copyrights after receiving a letter from plaintiffs, whether Netcom substantially participated in the infringement, and whether Netcom has a valid fair use defense. Accordingly, Netcom is not entitled to summary judgment on plaintiffs' claim of contributory copyright infringement. However, plaintiffs' claims of direct and vicarious infringement fail.

II. KLEMESRUD'S MOTION FOR JUDGMENT ON THE PLEADINGS

A. Standards for Judgment on the Pleadings

A motion for judgment on the pleadings pursuant to Federal Rule of Civil Procedure 12(c) is directed at the legal sufficiency of a party's allegations. A judgment on the pleadings is proper when there are no issues of material fact, and the moving party is entitled to judgment as a matter of law. *General Conference Corp. v. Seventh Day Adventist Church*, 887 F.2d 228, 230 (9th Cir.1989), cert. denied, 493 U.S. 1079, 110 S.Ct. 1134, 107 L.Ed.2d 1039 (1990); *Hal Roach Studios v. Richard Feiner & Co.*, 896 F.2d 1542, 1550 (9th Cir.1989). In ruling on a motion for judgment on the pleadings, district courts must accept all material allegations of fact alleged in the complaint as true, and resolve all doubts in favor of the nonmoving party. *Id.* The court need not accept as true conclusory allegations or legal characterizations. *Western Mining Council v. Watt*, 643 F.2d 618, 624 (9th Cir.1981). Materials submitted with the complaint may be considered. *Hal Roach Studios*, 896 F.2d at 1555. All affirmative defenses must clearly appear on the face of the complaint. *McCalden v. California Library Ass'n*, 955 F.2d 1214, 1219 (9th Cir.1990).

B. Copyright Infringement

1. Direct Infringement

[19] First, plaintiffs allege that Klemesrud directly infringed their copyrights by "reproduc[ing] and publish[ing] plaintiffs' works." FAC ¶ 35. The complaint alleges that "Erlich ... caused copies of [plaintiffs' works] to be published, without authorization, on the BBS computer maintained by Klemesrud" and that "Klemesrud's BBS computer, after receiving and storing for some period of time the copies of the Works sent to it from Erlich, created additional copies of the works and sent these copies to Netcom's computer." FAC ¶ 34. The allegations against Klemesrud fail for the same reason the court found that Netcom was entitled to judgment as a matter of law on the direct infringement claim. There are no allegations that Klemesrud took any affirmative steps to cause the copies to be made. The allegations, in fact, merely say that "Erlich ... caused" the copies to be made and that Klemesrud's computer, not Klemesrud himself, created additional copies. There are ***1382** no allegations in the complaint to overcome the missing volitional or causal elements necessary to hold a BBS operator directly liable for copying that is automatic and caused by a subscriber. See *supra* part I.B.1.

2. Contributory Infringement

[20] Second, the complaint alleges that Klemesrud is contributorily liable. FAC ¶ 35. It further alleges that plaintiffs repeatedly objected to Klemesrud's actions and informed him that Erlich's (and his) actions constituted infringement. FAC ¶ 36. A letter attached to the complaint indicates that such notice was first sent to Klemesrud on December 30, 1994. FAC, Ex. I. Despite the warnings, Klemesrud allegedly refused to assist plaintiffs in compelling Erlich to stop his postings and refused to stop receiving, copying, transmitting and publishing the postings. FAC ¶ 38. To state a claim for contributory infringement, plaintiffs must allege that Klemesrud knew or should have known of Erlich's infringing actions at the time they occurred and yet substantially participated by "induc[ing], caus[ing] or materially contribut[ing] to the infringing conduct" of Erlich. *Gershwin*, 443 F.2d at

1162. For the reasons discussed in connection with Netcom's motion, the court finds plaintiffs' pleadings sufficient to raise an issue of contributory infringement.

3. Vicarious Liability

[21] The third theory of liability argued by plaintiffs, vicarious liability, is not specifically mentioned in the complaint. Nonetheless, this theory fails as a matter of law because there are insufficient factual allegations to support it. Plaintiffs must show that Klemesrud had the right and ability to control Erlich's activities and that Klemesrud had a direct financial interest in Erlich's infringement. *Shapiro, Bernstein*, 316 F.2d at 306. A letter from Klemesrud to plaintiffs' counsel states that Klemesrud would comply with plaintiffs' request to take actions against Erlich by deleting the infringing postings from his BBS if plaintiffs mailed him the original copyrighted work and he found that they matched the allegedly infringing posting. FAC, Ex. J. Plaintiffs argue that this letter indicates Klemesrud's ability and right to control Erlich's activities on his BBS. The court finds that this letter, construed in the light most favorable to plaintiffs, raises a question as to whether plaintiffs can show that Klemesrud, in the operation of his BBS, could control Erlich's activities, such as by deleting infringing postings. However, plaintiffs' failure to allege a financial benefit is fatal to their claim for vicarious liability.

The complaint alleges that Klemesrud is in the business of operating a BBS for subscribers for a fee. The complaint does not say how the fee is collected, but there are no allegations that Klemesrud's fee, or any other direct financial benefit received by Klemesrud, varies in any way with the content of Erlich's postings. Nothing in or attached to the complaint states that Klemesrud in any way profits from allowing Erlich to infringe copyrights. Plaintiffs are given 30 days leave in which to amend to cure this pleadings deficiency if they can do so in good faith.

III. PRELIMINARY INJUNCTION AGAINST NETCOM AND KLEMESRUD

A. Legal Standards for a Preliminary Injunction

[22][23] A party seeking a preliminary injunction may establish its entitlement to equitable relief by showing either (1) a combination of probable success on the merits and the possibility of irreparable injury, or (2) serious questions as to these matters and the balance of hardships tipping sharply in the movant's favor. *First Brands Corp. v. Fred Meyer, Inc.*, 809 F.2d 1378, 1381 (9th Cir.1987). These two tests are not separate, but represent a "continuum" of equitable discretion whereby the greater the relative hardship to the moving party, the less probability of success need be shown. *Regents of University of California v. American Broadcasting Cos.*, 747 F.2d 511, 515 (9th Cir.1984). The primary purpose of a preliminary injunction is to preserve the status quo pending a trial on the merits. *Los Angeles Memorial Coliseum Commission v. National Football League*, 634 F.2d 1197, 1200 (9th Cir.1980).

*1383 B. Likelihood of Success

[24] The court finds that plaintiffs have not met their burden of showing a likelihood of success on the merits as to either Netcom or Klemesrud. The only viable theory of infringement is contributory infringement, and there is little evidence that Netcom or Klemesrud knew or should have known that Erlich was engaged in copyright infringement of plaintiffs' works and was not entitled to a fair use defense, especially as they did not receive notice of the alleged infringement until after all but one of the postings were completed. Further, their participation in the infringement was not substantial. Accordingly, plaintiffs will not likely prevail on their claims.

C. Irreparable Injury

The court will presume irreparable harm for the copyright claim where plaintiffs have shown a likelihood of success on their claims of infringement. *Johnson Controls, Inc. v. Phoenix Control Systems, Inc.*, 886 F.2d 1173, 1174 (9th Cir.1989). Here, however, plaintiffs have not made an adequate showing

of likelihood of success. More importantly, plaintiffs have not shown that the current preliminary injunction prohibiting Erlich from infringing plaintiffs' copyrights will not be sufficient to avoid any harm to plaintiffs' intellectual property rights.

D. First Amendment Concerns

[25][26] There is a strong presumption against any injunction that could act as a "prior restraint" on free speech, citing *CBS, Inc. v. Davis*, 510 U.S. 1315, ---- - ----, 114 S.Ct. 912, 913-14, 127 L.Ed.2d 358 (1994) (Justice Blackmun, as Circuit Justice, staying a preliminary injunction prohibiting CBS from airing footage of inside of meat packing plant). Because plaintiffs seek injunctive relief that is broader than necessary to prevent Erlich from committing copyright infringement, there is a valid First Amendment question raised here. Netcom and Klemesrud play a vital role in the speech of their users. Requiring them to prescreen postings for possible infringement would chill their users' speech. Cf. *In re Capital Cities/ABC, Inc.*, 918 F.2d at 144.

E. Conclusion

Plaintiffs have not shown a likelihood of success on the merits of their copyright claims nor irreparable harm absent an injunction against defendants Netcom and Klemesrud. Accordingly, plaintiffs are not entitled to a preliminary injunction.

IV. ORDER

The court denies Netcom's motion for summary judgment and Klemesrud's motion for judgment on the pleadings, as a triable issue of fact exists on the claim of contributory infringement. The court also gives plaintiffs 30 days leave in which to amend to state a claim for vicarious liability against defendant Klemesrud, if they can do so in good faith. Plaintiffs' application for a preliminary injunction against defendants Netcom and Klemesrud is denied.

Domain Names and Trademarks¹**I. Overview of Technical and Organizational Structure of Internet Domains****A. Technical Structure of Domain Names**

The Internet connects millions of people through a web of inter-linked computer networks. Each connection to the Internet, or host, is identified by an “IP address”- four series of numbers connected by periods (98.37.241.30). To make it easier for users to find each other, a distributed database known as the Domain Name Service (DNS) links IP addresses with alphanumeric “domain names” that are easier to remember.

The DNS is partitioned into a series of hierarchical domains. The highest level partition segregates sites based on their use through the top level domains (TLDs), which currently include .com, .edu, .gov, .int, .mil, .net, and country codes, such as .us.

Each TLD has one or more root servers which contain the authoritative DNS listing for the TLD. In 1998 the federal government declared its intention to transfer its powers in administering the domain name system and operating the “A” root server to “a private-sector, globally representative, non-profit, consensus-based organization” called ICANN. (The “A” root server synchronizes changes to the other root servers daily, thus providing consistent routing.)

Users choose and register descriptive second level domain (SLD) through a registry that coordinates the addresses within each top level domain. These registries have generally assigned SLDs on a first-come, first-serve basis, although they have developed a number of policies to avoid disputes about trademark and unfair competition. After the creation of ICANN, all registrars apply and all users must accept the Uniform Dispute Resolution Policy with regards to domain names which is to be found later in these materials. Once an organization has secured a second-level domain, they assume control of that domain, and may create third-level domains, email accounts, pages accessible over the world-wide web.

Several restrictions on domain names create possibilities for trademark disputes. Currently, no two domains may share the top level and second level domain name. Otherwise, duplicate SLDs would confuse resolvers, which are computer programs that track down Internet addresses. They rely on the nested structure of domains and find an address by starting at the top level domain and work its way down to the specific address. This technique would not work as well if more than one path were possible.

In addition, domain names are also limited to 24 characters of plain text, which limits the ability of trademark holders to translate distinctive features of their marks into domain names.

¹ Thanks to Darrell Fruth for producing these materials.

B. Administrative Structure of Domain Name Organization

U.S. Department of Commerce, Management of Internet Names and Addresses.

Do. No. 980212036-8146-02, (last modified 6/5/98)

<<http://www.ntia.doc.gov/ntiahome/domainname/6_5_98dns.htm>>.

...

U.S. Role in DNS Development:

More than 25 years ago, the U.S. Government began funding research necessary to develop packet-switching technology and communications networks, starting with the "ARPANET" network established by the Department of Defense's Advanced Research Projects Agency (DARPA) in the 1960s. ARPANET was later linked to other networks established by other government agencies, universities and research facilities. During the 1970s, DARPA also funded the development of a "network of networks;" this became known as the Internet, and the protocols that allowed the networks to intercommunicate became known as Internet protocols (IP).

As part of the ARPANET development work contracted to the University of California at Los Angeles (UCLA), Dr. Jon Postel, then a graduate student at the university, undertook the maintenance of a list of host names and addresses and also a list of documents prepared by ARPANET researchers, called Requests for Comments (RFCs). The lists and the RFCs were made available to the network community through the auspices of SRI International, under contract to DARPA and later the Defense Communication Agency (DCA) (now the Defense Information Systems Agency (DISA)) for performing the functions of the Network Information Center (the NIC).

After Dr. Postel moved from UCLA to the Information Sciences Institute (ISI) at the University of Southern California (USC), he continued to maintain the list of assigned Internet numbers and names under contracts with DARPA. SRI International continued to publish the lists. As the lists grew, DARPA permitted Dr. Postel to delegate additional administrative aspects of the list maintenance to SRI, under continuing technical oversight. Dr. Postel, under the DARPA contracts, also published a list of technical parameters that had been assigned for use by protocol developers. Eventually these functions collectively became known as the Internet Assigned Numbers Authority (IANA).

Until the early 1980s, the Internet was managed by DARPA, and used primarily for research purposes. Nonetheless, the task of maintaining the name list became onerous, and the Domain Name System (DNS) was developed to improve the process. Dr. Postel and SRI participated in DARPA's development and establishment of the technology and practices used by the DNS. By 1990, ARPANET was completely phased out.

The National Science Foundation (NSF) has statutory authority for supporting and strengthening basic scientific research, engineering, and educational activities in the United States, including the maintenance of computer networks to connect research and educational institutions. Beginning in 1987, IBM, MCI and Merit developed NSFNET, a national high-speed network based on Internet protocols, under an award from NSF. NSFNET, the largest of the governmental networks, provided a "backbone" to connect other networks serving more than 4,000 research and educational institutions throughout the country. The National Aeronautics and Space Administration (NASA) and the U.S. Department of Energy also contributed backbone facilities.

In 1991-92, NSF assumed responsibility for coordinating and funding the management of the non-military portion of the Internet infrastructure. NSF solicited competitive proposals to provide a variety of infrastructure services, including domain name registration services. On December 31, 1992, NSF entered into a cooperative agreement with Network Solutions, Inc. (NSI) for some of these services, including the domain name registration services. Since that time, NSI has managed key registration, coordination, and maintenance functions of the Internet domain name system. NSI registers domain names in the generic top level domains (gTLDs) on a first come, first served basis and also maintains a directory linking domain names with the IP numbers of domain name servers. NSI also currently maintains the authoritative database of Internet registrations.

In 1992, the U.S. Congress gave NSF statutory authority to allow commercial activity on the NSFNET.⁽⁵⁾ This facilitated connections between NSFNET and newly forming commercial network service providers, paving the way for today's Internet. Thus, the U.S. Government has played a pivotal role in creating the Internet as we know it today. The U.S. Government consistently encouraged bottom-up development of networking technologies, and throughout the course of its development, computer scientists from around the world have enriched the Internet and facilitated exploitation of its true potential. For example, scientists at CERN, in Switzerland, developed software, protocols and conventions that formed the basis of today's vibrant World Wide Web. This type of pioneering Internet research and development continues in cooperative organizations and consortia throughout the world.

...

The Internet technical community has been actively debating DNS management policy for several years. Experimental registry systems offering name registration services in an alternative set of exclusive domains developed as early as January 1996. Although visible to only a fraction of Internet users, alternative systems such as the name.space, AlterNIC, and eDNS affiliated registries⁽⁷⁾ contributed to the community's dialogue on the evolution of DNS administration.

In May of 1996, Dr. Postel proposed the creation of multiple, exclusive, competing top-level domain name registries. This proposal called for the introduction of up to 50 new competing domain name registries, each with the exclusive right to register names in up to three new top-level domains, for a total of 150 new TLDs. While some supported the proposal, the plan drew much criticism from the Internet technical community.⁽⁸⁾ The paper was revised and reissued.⁽⁹⁾ The Internet Society's (ISOC) board of trustees endorsed, in principle, the slightly revised but substantively similar version of the draft in June of 1996.

After considerable debate and redrafting failed to produce a consensus on DNS change, IANA and the Internet Society (ISOC) organized the International Ad Hoc Committee⁽¹⁰⁾ (IAHC or the Ad Hoc Committee) in September 1996, to resolve DNS management issues. The World Intellectual Property Organization (WIPO) and the International Telecommunications Union (ITU) participated in the IAHC. The Federal Networking Council (FNC) participated in the early deliberations of the Ad Hoc Committee.

The IAHC issued a draft plan in December 1996 that introduced unique and thoughtful concepts for the evolution of DNS administration.⁽¹¹⁾ The final report proposed a memorandum of understanding (MoU) that would have established, initially, seven new gTLDs to be operated on a nonexclusive basis by a consortium of new private domain name registrars called the Council of Registrars (CORE).⁽¹²⁾ Policy oversight would have been undertaken in a separate council called the Policy Oversight Committee (POC) with seats allocated to specified stakeholder groups. Further, the plan formally introduced mechanisms for resolving trademark/domain name disputes. Under the MoU, registrants for second-level domains would have been required to

submit to mediation and arbitration, facilitated by WIPO, in the event of conflict with trademark holders.

Although the IAHC proposal gained support in many quarters of the Internet community, the IAHC process was criticized for its aggressive technology development and implementation schedule, for being dominated by the Internet engineering community, and for lacking participation by and input from business interests and others in the Internet community.⁽¹³⁾ Others criticized the plan for failing to solve the competitive problems that were such a source of dissatisfaction among Internet users and for imposing unnecessary burdens on trademark holders. Although the POC responded by revising the original plan, demonstrating a commendable degree of flexibility, the proposal was not able to overcome initial criticism of both the plan and the process by which the plan was developed.⁽¹⁴⁾ Important segments of the Internet community remained outside the IAHC process, criticizing it as insufficiently representative.⁽¹⁵⁾

As a result of the pressure to change DNS management, and in order to facilitate its withdrawal from DNS management, the U.S. Government, through the Department of Commerce and NTIA, sought public comment on the direction of U.S. policy with respect to DNS, issuing the Green Paper on January 30, 1998.⁽¹⁶⁾ The approach outlined in the Green Paper adopted elements of other proposals, such as the early Postel drafts and the IAHC gTLD- MoU.

The DNS has been coordinated by the Internet Assigned Numbers Authority (IANA) for over 20 years. Control and financial responsibility of non-military TLDs was assumed by the National Science Foundation in 1993. The NSF contracted with a number of companies to provide database, information, and registry services. These companies together formed InterNIC to administer protocols established by the NSF.

The most controversial aspect of the InterNIC administration involves assigning unique SLD names. Network Solutions, Inc.(NSI) contracted to provide this service as the exclusive registrar for five of the TLDs, including the influential .com TLD. Originally, the federal government paid the cost of administering the system. Recognizing the dramatic increase in use and influence of commerce on the Internet, NSI phased out funding by 1995. At this point NSI began to charge for registration. NSI's contract was set to expire in April 1998, but NSF allowed NSI to continue on during a "flexibility period" until September 30, 1998.

Since the Whitehouse released its plan to get out of the Internet business in the White Paper on June 15, 1998, a flurry of activity has occurred. Internet stakeholders responded to the proposal through an International Forum on the White Paper (IFWP). Drawing from the Whitepaper and the ensuing debate, a number of proposals were developed to administer gTLDs through a non-profit corporation. Under the guidance of Jon Postel, IANA and Network solutions unveiled their proposed organization, International Committee on Network Numbering (ICANN) on September 19, 1998.

Meanwhile, the government's contract with NSI was due to expire On September 30, 1998. Yet the government had not secured a new agreement for the transition, and on September 29, 1998 the Commerce Department extended NSI's contract until October 7. On October 6, the Whitehouse announced an agreement with NSI to transfer control of gTLDs to an international non-profit. In the interim, NSI will develop software to allow retail registration of .com, .org, and .net TLDs by March 31, 1999. NSI will provide exclusive wholesale services for these domains. On October 23, just days after Jon Postel passed away, the Clinton Administration chose a proposed corporate structure for ICANN.

The New York Times Company

By CARL S. KAPLAN

A Kind of Constitutional Convention for the Internet

October 23, 1998

At first blush, the new nonprofit organization selected by the Clinton Administration earlier this week to take over the important job of administering Internet domain names appears to be just another geeky technical standards group.

But look closer, say some legal observers, and you will see that the newborn baby, called the Internet Corporation for Assigned Names and Numbers (ICANN), is actually the beginning of something big -- a unique form of government for the global Internet.

Over the next few weeks, these observers say, a constitutional moment in the life of the Internet will occur as representatives of the government and various interest groups seek to hash out the corporation's structure and rules in an effort to give it final shape and check its power.

But unlike the gathering in Philadelphia where the United States Constitution was created, this process is much more informal and decentralized.

"This is a constitutional convention in a sense," said Jonathan Zittrain, a law professor at Harvard University and executive director of the [Berkman Center for Internet and Society](#), the school's cyberspace research center. "That's why there's such great interest" in ICANN and its birth, he said.

David Post, a law professor at Temple University who specializes in the legal issues of cyberspace, added: "If there is going to be this one entity that has a great deal of power, you'd have to say that the process of deciding how that power will be exercised is constitution-making. This absolutely is a critical moment."

Post, who wrote an article about ICANN in the November issue of *The American Lawyer*, said in an interview that any organization that controls the Internet's addressing system -- including the assignment of domain names, like "nytimes.com," and corresponding numerical addresses -- has a potential "choke hold" on cyberspace.

"For all the talk about how difficult it is for any country to govern the Internet because the Internet is global and decentralized, well, this is the only place in the system that is in some sense centrally managed and centrally controlled," Post said.

He noted that ICANN could theoretically govern the Internet by imposing certain conditions on people who wish to participate in cyberspace. For example, he said, if it wanted to outlaw anonymity on the Internet, ICANN could tell Internet service providers that they could not get a domain name address unless they took steps to make their subscribers fully identifiable. The organization could do the same to enforce a privacy policy or other rules, Post said.

Previously, the domain name system was supervised by the United States government through contractual arrangements with the [Internet Assigned Numbers Authority](#) (IANA) and [Network Solutions Inc.](#) Over the past year or so, the government encouraged companies and groups with an interest in the Internet's future to submit proposals for a not-for-profit corporation that would take over control of the Internet address system.

On Oct. 2, Dr. Jon Postel, an Internet pioneer who ran IANA, submitted a plan to the Secretary of Commerce for the establishment of ICANN, based on extensive discussions with a wide range of people and organizations. Postel died last Friday of complications after undergoing heart surgery. The ICANN plan vested power over global domain name policy in a geographically diverse board of 19 directors, to be selected by an interim board and three technical subgroups. Critics complained that the plan was undemocratic and dangerous.

"The biggest problem that we found was accountability," said Diane Cabell, a Boston lawyer and member of the [Boston Working Group](#), a loose collection of Internet users that submitted criticisms of the ICANN plan to the Commerce Department.

"The board was not accountable to anyone because there were no members or shareholders," she said. In addition, the plan does not call for a competing organization to check the board's power, nor is there any regulatory oversight of its activities, she said.

Karl Auerbach, a member of the Boston Working Group who has been involved with the development of the Internet since 1973, said in an interview that the ICANN proposals gave the impression of openness and responsiveness. "But really the power was in the hands of a few -- half a dozen people running this thing for the whole world," he said. "That terrified me."

The Boston Group and some other critics want to check ICANN's power by requiring the organization to have members who will elect the board and participate in annual meetings. They also want to lessen the role of the three technical subgroups.

For its part, the government seems to be nudging but not requiring ICANN to adopt a membership structure. In a [letter](#) sent last week to ICANN representatives, the Commerce Department said that although it regarded the ICANN proposal as "a significant step" in the privatization of the domain name system, it also expressed the hope that the organization would "review and consider the many thoughtful and constructive comments" from critics, including the Boston Working Group and the Open Root Server Confederation.

In particular, the letter noted that the ICANN board, under its proposed bylaws, is encouraged but not required to establish a membership structure.

"We believe ICANN should resolve this issue in a way that ensures greater accountability of the board of directors to the Internet community," the letter said.

Ira C. Magaziner, the White House's Internet guru, said in an interview that over the next few weeks the ICANN group "is going to work on amending their proposal" to respond to the government's concerns about accountability, among other things. "If they fail to do that, we will have to consider other alternatives," he said. "But my guess is they will succeed."

"It's been suggested that some type of membership organization may be necessary to achieve the type of accountability everybody wants. We don't want to dictate how this should be done, however."

Joe Sims, a Washington-based lawyer who represents ICANN, said his group will give "serious consideration" to criticisms of the plan, but he declined to comment specifically on how the ICANN proposal might be modified. He added that he didn't think there was "a significant gap" between ICANN and some critics on the membership issue.

Sims also said he thinks the importance of the negotiations over ICANN's structure has been overblown. "This is at heart an administrative body," he said.

Post said he thinks that some sort of membership structure for ICANN would be better than nothing. But he fears that even this may not be a sufficient check on the board's concentrated power.

"The best thing would be to split up ICANN's power into competing centers of power -- break it up into pieces and give it to different institutions," he said. Otherwise, he said, it would be too easy for private interests to "capture" the board.

Zittrain of Harvard said that he believes fragmenting power too much can be inefficient. "You've got to trust somebody," he said. "I think a high-profile board from a broad electoral base" would give those involved with the Internet good protection from possible abuses.

Zittrain added, however, that although he had high hopes for a modified ICANN, he found something ironic in the birth process. The government, he explained, believes that the task of running the domain name system can better be handled by the private sector. At the same time, it is helping to create an entity that resembles a government.

"Sooner or later this thing [ICANN] will start looking and talking like a duck, so what makes it not a government?" he asked.

ICANN | Third Status Report Under JPA/MOU | 3 July 2001 Third Status
Report Under ICANN/US Government Memorandum of Understanding
(3 July 2001)

THIRD STATUS REPORT TO THE DEPARTMENT OF COMMERCE
July 3, 2001

On June 5, 1998, the United States Government published its Statement of Policy, Management of Internet Names and Addresses, 63 Fed. Reg. 31741(1998) (commonly known as the "White Paper"), declaring its policy to transfer responsibility for functions involving the technical management of the Internet from the U.S. Government and its contractors to a private-sector, globally representative, non-profit, consensus-based organization. On November 25, 1998, the United States Department of Commerce ("DOC") and the Internet Corporation for Assigned Names and Numbers ("ICANN") entered a Memorandum of Understanding ("MOU") formally recognizing ICANN as that organization and establishing a joint project under which ICANN and DOC agreed to design, develop, and test the mechanisms, methods, and procedures that should be in place and the steps necessary to transfer the U.S. Government's technical management responsibilities to ICANN.

The MOU originally provided for the joint project to run for approximately twenty-two months, through September 30, 2000. ICANN provided an initial status report to DOC on June 15, 1999; that report can be found at <http://www.icann.org/general/statusreport-15june99.htm>. It provided a Second Status Report to DOC on June 30, 2000; that report can be found at <http://www.icann.org/general/statusreport-30jun00.htm>.

Following the receipt of the Second Status Report and consultations with the DOC, the MOU was amended to extend its term to September 30, 2001, and to adjust the provisions to reflect work that had already been completed. This report describes the progress under the Amended MOU since that time, and identifies the tasks remaining to be completed.

A. General Description of Project

The MOU provides that "the Parties will jointly design, develop, and test the mechanisms, methods, and procedures that should be in place and the steps necessary to transition management responsibility for DNS functions now performed by, or on behalf of, the U.S. Government to a private-sector not-for-profit entity." The mechanisms, methods, and procedures developed were intended to "achieve the transition without disrupting the functional operation of the Internet." Upon successful testing, the MOU stated "management of the DNS will be transitioned to the mechanisms, methods, and procedures designed and developed in the DNS Project."

The general scope of the project was defined as follows:

"In the DNS Project, the parties will jointly design, develop, and test the mechanisms, methods, and procedures to carry out the following DNS management functions:

- a. Establishment of policy for and direction of the allocation of IP number blocks;
- b. Oversight of the operation of the authoritative root server system;

- c. Oversight of the policy for determining the circumstances under which new top level domains would be added to the root system;
- d. Coordination of the assignment of other Internet technical parameters as needed to maintain universal connectivity on the Internet; and
- e. Other activities necessary to coordinate the specified DNS management functions, as agreed by the Parties."

B. ICANN's Progress Toward Completion of Specified Tasks

The MOU originally set forth nine specific tasks to which ICANN committed its resources as part of the joint project for the design, development, and testing of the mechanisms for post-transition private-sector technical management of the Internet. (It also provided, as a tenth task, that ICANN collaborate with DOC on other activities as appropriate to achieve the purposes of the joint project, as agreed by the parties.)

Because the mechanisms in several of these tasks had been fully designed, developed, and tested, and were successfully operating to permit private-sector technical management, Amendment 2 of the MOU replaced the original list of tasks with a revised list. The following sets forth the MOU's description of the revised list of seven specific tasks and describes the progress made to date toward completion of that task:

Task 1: Continue to provide expertise and advice on private sector functions related to technical management of the DNS.

Status of progress on task 1: While this is a continuing effort, the basic task is largely completed, and is certainly functioning effectively today. In 1999, ICANN entered into memoranda of understanding with both the Regional Address Registries (RIRs) (to form the Address Supporting Organization (ASO)) and various Internet standards development organizations (to form the Protocol Supporting Organization (PSO)). These memoranda of understanding establish the ASO and the PSO as the bodies primarily responsible for formulating address and protocol policy recommendations within the ICANN process.

In addition, in 2000, ICANN and the Internet Engineering Task Force (IETF) (which is one of the PSO constituency organizations) entered a Memorandum of Understanding Concerning the Technical Work of the Internet Assigned Numbers Authority, under which the IETF appointed ICANN to perform the protocol-parameter assignment functions (the IANA functions) arising from the technical Internet standards developed by the IETF.

Since their formation, the ASO and PSO have each been responsible for providing, through broadbased procedures set forth by each body, three members of ICANN's Board of Directors.

Thus, ICANN has established stable relationships with the both the Internet standards development organizations and the regional address registries. These relationships allow those organizations to continue their technical work in their respective areas of activity, while bringing them together within the ICANN process to formulate policies that span the areas of activity of multiple organizations.

Currently, ICANN is working closely with the ASO and its members, and with the organizers of proposed new regional address registries in Latin America and Africa, to facilitate the creation of these new registries, which will increase the efficiency of address allocation in those areas.

This task is essentially completed.

Task 2: Work collaboratively on a global and local level to pursue formal legal agreements with the Regional Address Registries (RIRs) to achieve stable relationships that allow them to continue their technical work, while incorporating their policy-making activities into the ICANN process.

Status of progress on task 2: Work continues on this task. The existing ASO memorandum of understanding was amended in October 2000 to make adjustments to the selection process for Address Council members based on experience. Other than this minor adjustment, the ASO has been performing well.

There has been a continuing dialogue between ICANN and the RIRs on supplementing the ASO memorandum of understanding with relationship agreements between ICANN and the individual RIRs. Dialogue continues and progress has been made. The next meeting on this subject is scheduled for late July, in conjunction with a Board meeting of ARIN, one of the three existing RIRs. The number of complex issues to be resolved has been narrowed to just a few. Delay in consummating the agreements implies that the RIRs have not yet made their planned financial support to ICANN, but the amounts contemplated are being held in reserve by the RIRs pending final agreement. In any event, the financial contribution contemplated from the RIRs as a group is a sufficiently small portion of ICANN's overall costs that its absence to date has not had a material effect on ICANN's ability to carry out its responsibilities under this MOU. Any new RIRs will begin operation pursuant to agreements with ICANN.

This task should be completed in the near future. If for some reason it is not, consideration should be given to whether additional agreements with the RIRs are in fact necessary to the effective functioning of ICANN, especially given the existence and effectiveness of the ASO operating under the existing memorandum of understanding between the RIRs and ICANN.

Task 3: Continue to develop and test the ICANN Independent Review process to address claims by members of the Internet community that they have been adversely affected by decisions in conflict with ICANN's by-laws or contractual obligations. Report on ICANN's experience with the fully implemented reconsideration process and independent review process.

Status of progress on task 3: ICANN's bylaws provide for the establishment of an independent review process by which contested actions of the ICANN Board may be subjected to independent third-party review. At its meeting in Cairo, Egypt on March 10, 2000, the ICANN Board adopted an Independent Review Policy that will result in formation of a nine-member Independent Review Panel. The members of the Independent Review Panel are to be nominated by the Independent Review Panel Nominating Committee (IRP Nominating Committee) and are subject to confirmation by a vote of the ICANN Board.

Under the policy, the IRP Nominating Committee consists of six members appointed by ICANN's Supporting Organizations. The members are appointed to three-year terms, except half the initial members are appointed to two-year terms. The members of the IRP Nominating Committee serve as volunteers and are not compensated. The IRP Nominating Committee is

convened when the ICANN Board notifies it that a vacancy exists on the Independent Review Panel.

In April 2001, the appointment of the six initial members of the IRP Nominating Committee was completed by the Supporting Organizations, and on May 7, 2001 the ICANN Board directed the ICANN Secretary to notify the IRP Nominating Committee that the initial nine vacancies on the Independent Review Panel should be filled. That notification was made on May 22, 2001.

Under Section 5.9 of the Independent Review Policy, the IRP Nominating Committee ordinarily has 45 days after the notification of a vacancy to forward its nomination to the Board. In its resolution [01.51], the ICANN Board provided that, because the IRP Nominating Committee would convene for the first time and would be searching for nine qualified nominees, the committee should forward its nominations to the Board within 90 days after the Secretary's notification. Accordingly, the committee is scheduled to provide its nominations for the IRP to the ICANN Board no later than August 20, 2001.

On June 26, 2001, the IRP Nominating Committee published an open call to the Internet community for potential nominees. The open call period will close on July 26, 2001.

Thus, this task is well underway, and should be fully implemented within a few months.

Of course, in addition to the Independent Review Policy, ICANN already has in existence a reconsideration policy, under which members of the ICANN community affected by actions of the ICANN staff or Board can seek reconsideration of those actions by the Board. Also, many of the contracts and other agreements with domain name registries and registrars contain provisions paralleling protections in ICANN's bylaws concerning open and transparent policymaking, fostering of competition, and prohibitions against arbitrary or unjustifiable action. They also typically include arbitration provisions, which give the parties contracting with ICANN access to a neutral decisionmaker to resolve questions under these provisions.

Task 4: Collaborate with the Department to continue to complete development of a proposed enhanced architecture for root server security, and the development of the following documentation to be used in connection with testing and implementation of the enhanced root-server system architecture:

- a. A written description of the enhanced architecture incorporating a dedicated primary root server;
- b. A procedural plan for transition to the enhanced architecture;
- c. An implementation schedule for transition to the enhanced architecture;
- d. Documentation of IANA procedures for root zone editing, root zone generation, and root zone WHOIS service; and
- e. An agreement between ICANN and root-server operators that formalizes stable, secure, and professional operation of the

root-servers in accordance with the enhanced architecture.

Status of progress on task 4: ICANN's Root Server System Advisory Committee (RSSAC) was formed in 1999. Since that time, the committee -- which is composed of the operators of all thirteen DNS root servers as well as DNS and network topology technical experts -- has been working to complete this task.

The current status of this effort is reflected in the RSSAC report at ICANN's most recent meeting, which can be found at <http://cyber.law.harvard.edu/icann/stockholm/archive/murai-rssac.html>.

Those portions of this task set out in a-c above are essentially completed and the technical detail required by d above is well underway; final documentation should be forthcoming within the next few months. There is conceptual agreement on the form of an undertaking between ICANN and the root server operators, and those may well be completed this summer. Upon the completion of these tasks, the Committee will report to the ICANN Board, and the Board will take the appropriate actions to complete this specific task, including the implementation of various steps designed to improve root server security and the establishment of a dedicated master server to maintain the authoritative root zone files.

Task 5: Following Department of Commerce review and approval of the documentation listed in paragraph 4 above, ICANN shall test and implement the enhanced root-server system architecture, including ICANN's operation of the authoritative root, under appropriate terms and conditions.

Status of progress on task 5: The implementation of this task will follow the completion of task 4.

Task 6: ICANN will continue its efforts to achieve stable agreements with the organizations operating country-code top level domains that cover the delegation and redelegation issues; allocation of global and local policy-formulation responsibility; and the relationships among ccTLD operators and the relevant government or public authority.

Status of progress on task 6: These discussions have continued with representatives of the ccTLD community. The requirements for the forms of agreements have been better identified, and this should lead to the formalization of some agreements in the near future. In addition, ICANN has begun discussions with individual ccTLDs that seem likely to lead to agreements in the next few months. At the most recent ICANN public meeting, ICANN's CEO committed to developing the capacity to complete at least five such agreements per month. The recent hiring of a Counsel for International Affairs and a ccTLD Liaison are significant steps in this direction.

Thus, efforts to complete this task are ongoing, with significant progress expected in the coming months.

Task 7: ICANN will continue the process of implementing new TLDs including proceeding with a proof of concept or testbed period and continuing design, development, and testing to determine future policy and action, continuing to consider:

- a. The potential impact of new TLDs on the Internet root server system

and Internet stability.

b. The creation and implementation of minimum criteria for new and existing TLD registries.

c. Potential consumer benefits/costs associated with establishing a competitive environment for TLD registries.

d. Recommendations regarding trademark/domain name policies set forth in the Statement of Policy; recommendations made by the World Intellectual Property Organization (WIPO) and recommendations made by other independent organizations concerning trademark/domain name issues.

Status of progress on task 7: Implementation of this task is well under way.

For nearly the entire time since it was formed, ICANN has devoted a significant part of its activities to the consideration of the establishment of new generic TLDs. At the ICANN meeting in Berlin in May 1999, ICANN's Board referred the issue of new TLDs to the (then newly formed) Domain Name Supporting Organization (DNSO). In response to this referral, in June 1999 the DNSO Names Council (which manages the process for development of policy recommendations within the DNSO) created a group, known as Working Group C, to study the issues raised by the introduction of new TLDs. After nine months of extensive discussions and review of several position papers, Working Group C submitted its report to the DNSO Names Council on March 21, 2000, recommending introduction of a limited number of TLDs, and posted the report for public comment. Public comments were solicited and received through ICANN's web-based comment forum and via e-mail to the dnso.org site.

The Names Council discussed the report and comments at a telephone conference held on April 18, 2000. At that meeting, the Names Council adopted the following statement, by a vote of 16-0 (two members were absent):

The Names Council therefore recommends to the ICANN Board that it establish a policy for the introduction of new gTLDs in a measured and responsible manner, giving due regard in the implementation of that policy to (a) promoting orderly registration of names during the initial phases; (b) minimizing the use of gTLDs to carry out infringements of intellectual property rights; and (c) recognizing the need for ensuring user confidence in the technical operation of the new TLD and the DNS as a whole.

The DNSO recommendation continued:

We recommend to the Board that a limited number of new top-level domains be introduced initially and that the future introduction of additional top-level domains be done only after careful evaluation of the initial introduction.

On July 16, 2000, after considering well over 1000 public comments, the ICANN Board adopted the DNSO recommendations and authorized the ICANN President to formally call for proposals to operate or sponsor new TLDs.

On 15 August 2000, ICANN posted a public call for applications on its

web site and broadly announced the availability of the application materials. At the same time, ICANN published detailed criteria for the consideration any applications received. In response to the call, forty-four completed applications were received.

Once these applications were submitted, they were posted on ICANN's web site for public comment. Over 4000 comments were received; all appeared on ICANN's web site. ICANN also assembled a team of technical, financial, and legal experts to review and evaluate the applications, which issued a 326-page evaluation report on the applications.

Additional public comments were received on this report, both on a web-based forum established by ICANN for this purpose (over 1000 comments received) and at an all-day public forum held in Marina del Rey, California, USA on 15 November 2000.

The introduction of new TLDs was the principal issue addressed at ICANN's annual meeting in November 2000. Leading up to that meeting, the Internet community had spent several weeks reviewing the applications and the detailed evaluation report, engaged in a robust dialogue on ICANN's web-based public forums (with a total of over 5000 postings), and intensely discussed the issues through ICANN's constituency and supporting organization structures. After extensive study of the materials in advance of the meeting and participation in the all-day public forum, the ICANN Board discussed the applications in a several-hour open session on 16 November 2000. As a result of this review, seven proposals to operate or sponsor TLDs were selected for an initial introduction of TLDs, as recommended by the DNSO.

In late 2000, ICANN and the proponents of the selected proposals began negotiations for appropriate agreements under which those TLDs could be introduced while preserving the stability of the DNS. Draft agreements for the new .biz and .info TLDs were posted on ICANN's web site in advance of the March 2001 ICANN meeting in Melbourne, Australia, and a public comment period was held at the ICANN Public Forum held on March 12, 2001. After additional adjustments based on the comments received, the agreements were posted for final review in late April 2001. They were then formally approved by the ICANN Board and they were signed on May 11, 2001. The full texts of both the .biz Registry Agreement and the .info Registry Agreement, with all their appendices, are posted on the ICANN web site.

The contracts have been designed to ensure that these TLDs are introduced in a sound manner that will maintain stable and reliable technical operation of the DNS. In particular, the contracts recite functional and performance specifications, data escrow requirements, and a detailed start-up plan that are designed to ensure that stable operation of the DNS is maintained, both during the startup phase and in the long term. User awareness is also relevant to smooth operation of the DNS; experience has shown that some level of confusion accompanies almost any change in the DNS. The operators of .biz and .info, however, have committed to information-dissemination measures that should keep any public confusion to a minimum.

Registration activities for .biz have commenced already and registration in .info will commence later this month. For both TLDs, DNS resolution of the names that are registered will begin in September 2001. To assist in a stable introduction with the public awareness needed to minimize

confusion, ICANN has agreed with Afilias and with NeuLevel that the .info and .biz top-level domains should be established in the DNS for testing and evaluation purposes. Initially, the nameservice for the domains will be operated by ICANN, which will conduct various testing procedures and then, according to schedules and procedures developed jointly with Afilias and NeuLevel, transfer the nameservice to servers operated by those companies in time for the September 2001 onset of regular resolution of .info and .biz names.

On June 25, 2001, ICANN recommended to DOC that these two new TLDs be entered into the root. On June 26, 2001, DOC concurred and instructed that the TLDs be entered in the root, and this was accomplished on that day. As of June 27, 2001, both .biz and .info became operational for the initial testing and implementation stage. They will begin resolving names being registered for customers by the early fall of this year.

These two new global TLDs are the first of seven approved by the ICANN Board of Directors last November. Agreements still remain to be signed for the remaining five top-level domains: .name, .pro, .aero, .coop, and .museum. Contract negotiations are continuing for the remaining new TLDs, and are expected to be completed later this summer.

At its most recent public meeting, the ICANN Board adopted Resolution [01.74], which directed the President to form and chair a New TLD Evaluation Process Planning Task Force, in order to create a plan to monitor the introduction of these new TLDs and evaluate their performance and their impact on the performance of the DNS. This Task Force was directed to report its recommendations at the next ICANN public meeting in September 2001.

Thus, considerable progress under this task has been made, and is continuing.

C. Summary of Current Status of the Joint Project

As the above discussion indicates, most of the tasks set forth in the amended MOU are either complete or well on the way to completion. They can be summarized as follows:

Task 1 is largely completed. The ongoing work today involves the creation of two new RIRs.

Task 2 is still underway, with expectations that this task will either be completed or its usefulness reevaluated in the near future.

Task 3 should be completed within 60 days.

Task 4 is well underway, and should be completed in the foreseeable future. All of the conceptual work has been completed, and what remains is technical detail and agreement on specific language of undertakings.

Task 5 will follow the completion of Task 4.

Task 6 is probably the task with the most work left to do, but recent progress leaves considerable reason to believe that the pace of completion of this task is likely to accelerate sharply in the near future.

Task 7 is ongoing, with the first wave of new TLD introductions likely to be completed by the end of 2001.

D. Steps Required for Completion of the Joint Project

The progress toward completion of the Joint Project has increased markedly since the Second Amendment of the MOU less than a year ago.

During that period, ICANN has:

- authorized seven new TLDs and begun the process of determining how to evaluate their impact on the DNS;

continued to accredit competitive registrars for both the original and the new TLDs;

entered into a license agreement with DOC for the use of the InterNIC service mark to be used in providing InterNIC services;

created an At Large Membership Study Committee with the objective of generating a consensus solution to the issue of general Internet user participation and involvement in ICANN;

engaged in a number of educational and technical efforts involving the rationale for a single authoritative root and internationalized domain names, among other topics;

renegotiated contracts with VeriSign for the operation and term of the .com, .net and .org registries;

established criteria for the authorization of new regional address registries; and

revised its budget process to enhance broad participation and transparency.

All of these steps and the other progress made by ICANN and its constituent units are consistent with, and further the implementation of, the objectives of the Joint Project.

There are still important tasks unfinished, but all indications are that each is on the path to resolution. Since it is unlikely that all the unfinished tasks will be completed by the current termination date of the MOU, the MOU should be extended for an appropriate time in order to complete those tasks.

Submitted by ICANN on July 3, 2001

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Page Updated 03-Jul-2001

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ICANN | Uniform Domain Name Dispute Resolution Policy Uniform Domain
Name
Dispute Resolution Policy
Policy Adopted: August 26, 1999
Implementation Documents Approved: October 24, 1999

Notes:

1. This policy is now in effect. See www.icann.org/udrp/udrp-schedule.htm for the implementation schedule.
2. This policy has been adopted by all accredited domain-name registrars for domain names ending in .com, .net, and .org. It has also been adopted by certain managers of country-code top-level domains (e.g., .nu, .tv, .ws).
3. The policy is between the registrar (or other registration authority in the case of a country-code top-level domain) and its customer (the domain-name holder or registrant). Thus, the policy uses "we" and "our" to refer to the registrar and it uses "you" and "your" to refer to the domain-name holder.

Uniform Domain Name Dispute Resolution Policy
(As Approved by ICANN on October 24, 1999)

1. Purpose. This Uniform Domain Name Dispute Resolution Policy (the "Policy") has been adopted by the Internet Corporation for Assigned Names and Numbers ("ICANN"), is incorporated by reference into your Registration Agreement, and sets forth the terms and conditions in connection with a dispute between you and any party other than us (the registrar) over the registration and use of an Internet domain name registered by you. Proceedings under Paragraph 4 of this Policy will be conducted according to the Rules for Uniform Domain Name Dispute Resolution Policy (the "Rules of Procedure"), which are available at www.icann.org/udrp/udrp-rules-24oct99.htm, and the selected administrative-dispute-resolution service provider's supplemental rules.
2. Your Representations. By applying to register a domain name, or by asking us to maintain or renew a domain name registration, you hereby represent and warrant to us that (a) the statements that you made in your Registration Agreement are complete and accurate; (b) to your knowledge, the registration of the domain name will not infringe upon or otherwise violate the rights of any third party; (c) you are not registering the domain name for an unlawful purpose; and (d) you will not knowingly use the domain name in violation of any applicable laws or regulations. It is your responsibility to determine whether your domain name registration infringes or violates someone else's rights.
3. Cancellations, Transfers, and Changes. We will cancel, transfer or otherwise make changes to domain name registrations under the following circumstances:
 - a. subject to the provisions of Paragraph 8, our receipt of written or

appropriate electronic instructions from you or your authorized agent to take such action;

b. our receipt of an order from a court or arbitral tribunal, in each case of competent jurisdiction, requiring such action; and/or

c. our receipt of a decision of an Administrative Panel requiring such action in any administrative proceeding to which you were a party and which was conducted under this Policy or a later version of this Policy adopted by ICANN. (See Paragraph 4(i) and (k) below.)

We may also cancel, transfer or otherwise make changes to a domain name registration in accordance with the terms of your Registration Agreement or other legal requirements.

4. Mandatory Administrative Proceeding.

This Paragraph sets forth the type of disputes for which you are required to submit to a mandatory administrative proceeding. These proceedings will be conducted before one of the administrative-dispute-resolution service providers listed at www.icann.org/udrp/approved-providers.htm (each, a "Provider").

a. Applicable Disputes. You are required to submit to a mandatory administrative proceeding in the event that a third party (a "complainant") asserts to the applicable Provider, in compliance with the Rules of Procedure, that

- (i) your domain name is identical or confusingly similar to a trademark or service mark in which the complainant has rights; and
- (ii) you have no rights or legitimate interests in respect of the domain name; and
- (iii) your domain name has been registered and is being used in bad faith.

In the administrative proceeding, the complainant must prove that each of these three elements are present.

b. Evidence of Registration and Use in Bad Faith. For the purposes of Paragraph 4(a)(iii), the following circumstances, in particular but without limitation, if found by the Panel to be present, shall be evidence of the registration and use of a domain name in bad faith:

- (i) circumstances indicating that you have registered or you have acquired the domain name primarily for the purpose of selling, renting, or otherwise transferring the domain name registration to the complainant who is the owner of the trademark or service mark or to a competitor of that complainant, for valuable consideration in excess of your documented out-of-pocket costs directly related to the domain name; or
- (ii) you have registered the domain name in order to prevent the owner of the trademark or service mark from reflecting the mark in a corresponding domain name, provided that you have engaged in a pattern of such conduct; or
- (iii) you have registered the domain name primarily for the purpose of disrupting the business of a competitor; or
- (iv) by using the domain name, you have intentionally attempted to attract, for commercial gain, Internet users to your web site or other on-line location, by creating a likelihood of confusion with the complainant's mark as to the source, sponsorship, affiliation, or endorsement of your web site or location or of a product or service on your web site or location.

c. How to Demonstrate Your Rights to and Legitimate Interests in the Domain Name in Responding to a Complaint. When you receive a complaint, you should refer to Paragraph 5 of the Rules of Procedure in determining how your response should be prepared. Any of the following circumstances, in particular but without limitation, if found by the Panel to be proved based on its evaluation of all evidence presented, shall demonstrate your rights or legitimate interests to the domain name for purposes of Paragraph 4(a)(ii):

- (i) before any notice to you of the dispute, your use of, or demonstrable preparations to use, the domain name or a name corresponding to the domain name in connection with a bona fide offering of goods or services; or
- (ii) you (as an individual, business, or other organization) have been commonly known by the domain name, even if you have acquired no trademark or service mark rights; or
- (iii) you are making a legitimate noncommercial or fair use of the domain name, without intent for commercial gain to misleadingly divert consumers or to tarnish the trademark or service mark at issue.

d. Selection of Provider. The complainant shall select the Provider from among those approved by ICANN by submitting the complaint to that Provider. The selected Provider will administer the proceeding, except in cases of consolidation as described in Paragraph 4(f).

e. Initiation of Proceeding and Process and Appointment of Administrative Panel. The Rules of Procedure state the process for initiating and conducting a proceeding and for appointing the panel that will decide the dispute (the "Administrative Panel").

f. Consolidation. In the event of multiple disputes between you and a complainant, either you or the complainant may petition to consolidate the disputes before a single Administrative Panel. This petition shall be made to the first Administrative Panel appointed to hear a pending dispute between the parties. This Administrative Panel may consolidate before it any or all such disputes in its sole discretion, provided that the disputes being consolidated are governed by this Policy or a later version of this Policy adopted by ICANN.

g. Fees. All fees charged by a Provider in connection with any dispute before an Administrative Panel pursuant to this Policy shall be paid by the complainant, except in cases where you elect to expand the Administrative Panel from one to three panelists as provided in Paragraph 5(b)(iv) of the Rules of Procedure, in which case all fees will be split evenly by you and the complainant.

h. Our Involvement in Administrative Proceedings. We do not, and will not, participate in the administration or conduct of any proceeding before an Administrative Panel. In addition, we will not be liable as a result of any decisions rendered by the Administrative Panel.

i. Remedies. The remedies available to a complainant pursuant to any proceeding before an Administrative Panel shall be limited to requiring the cancellation of your domain name or the transfer of your domain name registration to the complainant.

j. Notification and Publication. The Provider shall notify us of any decision made by an Administrative Panel with respect to a domain name you have registered with us. All decisions under this Policy will be published in full over the Internet, except when an Administrative Panel

determines in an exceptional case to redact portions of its decision.

k. Availability of Court Proceedings. The mandatory administrative proceeding requirements set forth in Paragraph 4 shall not prevent either you or the complainant from submitting the dispute to a court of competent jurisdiction for independent resolution before such mandatory administrative proceeding is commenced or after such proceeding is concluded. If an Administrative Panel decides that your domain name registration should be canceled or transferred, we will wait ten (10) business days (as observed in the location of our principal office) after we are informed by the applicable Provider of the Administrative Panel's decision before implementing that decision. We will then implement the decision unless we have received from you during that ten (10) business day period official documentation (such as a copy of a complaint, file-stamped by the clerk of the court) that you have commenced a lawsuit against the complainant in a jurisdiction to which the complainant has submitted under Paragraph 3(b)(xiii) of the Rules of Procedure. (In general, that jurisdiction is either the location of our principal office or of your address as shown in our Whois database. See Paragraphs 1 and 3(b)(xiii) of the Rules of Procedure for details.) If we receive such documentation within the ten (10) business day period, we will not implement the Administrative Panel's decision, and we will take no further action, until we receive (i) evidence satisfactory to us of a resolution between the parties; (ii) evidence satisfactory to us that your lawsuit has been dismissed or withdrawn; or (iii) a copy of an order from such court dismissing your lawsuit or ordering that you do not have the right to continue to use your domain name.

5. All Other Disputes and Litigation. All other disputes between you and any party other than us regarding your domain name registration that are not brought pursuant to the mandatory administrative proceeding provisions of Paragraph 4 shall be resolved between you and such other party through any court, arbitration or other proceeding that may be available.

6. Our Involvement in Disputes. We will not participate in any way in any dispute between you and any party other than us regarding the registration and use of your domain name. You shall not name us as a party or otherwise include us in any such proceeding. In the event that we are named as a party in any such proceeding, we reserve the right to raise any and all defenses deemed appropriate, and to take any other action necessary to defend ourselves.

7. Maintaining the Status Quo. We will not cancel, transfer, activate, deactivate, or otherwise change the status of any domain name registration under this Policy except as provided in Paragraph 3 above.

8. Transfers During a Dispute.

a. Transfers of a Domain Name to a New Holder. You may not transfer your domain name registration to another holder (i) during a pending administrative proceeding brought pursuant to Paragraph 4 or for a period of fifteen (15) business days (as observed in the location of our principal place of business) after such proceeding is concluded; or (ii) during a pending court proceeding or arbitration commenced regarding your domain name unless the party to whom the domain name registration is being transferred agrees, in writing, to be bound by the decision of the court or arbitrator. We reserve the right to cancel any transfer of a domain name registration to another holder that is made in violation

of this subparagraph.

b. Changing Registrars. You may not transfer your domain name registration to another registrar during a pending administrative proceeding brought pursuant to Paragraph 4 or for a period of fifteen (15) business days (as observed in the location of our principal place of business) after such proceeding is concluded. You may transfer administration of your domain name registration to another registrar during a pending court action or arbitration, provided that the domain name you have registered with us shall continue to be subject to the proceedings commenced against you in accordance with the terms of this Policy. In the event that you transfer a domain name registration to us during the pendency of a court action or arbitration, such dispute shall remain subject to the domain name dispute policy of the registrar from which the domain name registration was transferred.

9. Policy Modifications. We reserve the right to modify this Policy at any time with the permission of ICANN. We will post our revised Policy at <URL> at least thirty (30) calendar days before it becomes effective. Unless this Policy has already been invoked by the submission of a complaint to a Provider, in which event the version of the Policy in effect at the time it was invoked will apply to you until the dispute is over, all such changes will be binding upon you with respect to any domain name registration dispute, whether the dispute arose before, on or after the effective date of our change. In the event that you object to a change in this Policy, your sole remedy is to cancel your domain name registration with us, provided that you will not be entitled to a refund of any fees you paid to us. The revised Policy will apply to you until you cancel your domain name registration.

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Page Updated 04-June-00

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Misappropriation and Preemption -- Sec 301

105 F.3d 841

65 USLW 2506, 1997-1 Trade Cases P 71,705, 1997 Copr.L.Dec. P 27,591,
41 U.S.P.Q.2d 1585, 25 Media L. Rep. 1385**(Cite as: 105 F.3d 841)**

**The NATIONAL BASKETBALL
ASSOCIATION and NBA Properties, Inc.,
Plaintiff-
Counter-Defendant-Appellee-Cross-
Appellant,
v.
MOTOROLA, INC. doing business as
SportsTrax, Defendant-Counter-
Claimant-
Appellant-Cross-Appellee,
Sports Team Analysis and Tracking
Systems, Inc. doing business as Stats,
Inc.,
Defendant-Appellant-Cross-Appellee.**
United States Court of Appeals,
Second Circuit.

Argued Oct. 21, 1996.

Decided Jan. 30, 1997.

Before: VAN GRAAFEILAND, WINTER, and
ALTIMARI, Circuit Judges.

WINTER, Circuit Judge:

Motorola, Inc. and Sports Team Analysis and Tracking Systems ("STATS") appeal from a permanent injunction entered by Judge Preska. The injunction concerns a handheld pager sold by Motorola and marketed under the name "SportsTrax," which displays updated information of professional basketball games in progress. The injunction prohibits appellants, absent authorization from the National Basketball Association and NBA Properties, Inc. (collectively the "NBA"), from transmitting scores or other data about NBA games in progress via the pagers, STATS's site on America On-Line's computer dial-up service, or "any equivalent means."

The crux of the dispute concerns the extent to which a state law "hot-news" misappropriation claim based on *International News Service v. Associated Press*, 248 U.S. 215, 39 S.Ct. 68, 63 L.Ed. 211 (1918) ("INS "), survives preemption by the federal Copyright Act and whether the NBA's claim fits within the surviving INS-type claims. We hold that a narrow "hot-news" exception does survive preemption. However, we also hold that appellants' transmission of "real-time" NBA game scores and information tabulated from television and radio broadcasts of games in progress does not constitute a misappropriation of "hot news" that is the property of the NBA.

The NBA cross-appeals from the dismissal of its Lanham Act claim. We hold that any misstatements by Motorola in advertising its pager were not material and affirm.

I. BACKGROUND

The facts are largely undisputed. Motorola manufactures and markets the SportsTrax paging device while STATS supplies the game information that is transmitted to the pagers. The product became available to the public in January 1996, at a retail price of about \$200. SportsTrax's pager has an inch- and-a-half by inch-and-a-half screen and operates in four basic modes: "current," "statistics," "final scores" and "demonstration." It is the "current" mode that gives rise to the present dispute. [FN1] In that mode, SportsTrax *844 displays the following information on NBA games in progress: (i) the teams playing; (ii) score changes; (iii) the team in possession of the ball; (iv) whether the team is in the free-throw bonus; (v) the quarter of the game; and (vi) time remaining in the quarter. The information is updated every two to three

minutes, with more frequent updates near the end of the first half and the end of the game. There is a lag of approximately two or three minutes between events in the game itself and when the information appears on the pager screen.

FN1. The other three SportsTrax modes involve information that is far less contemporaneous than that provided in the "current" mode. In the "statistics" mode, the SportsTrax pager displays a variety of player and team statistics, such as field goal shooting percentages and top scorers. However, these are calculated only at half-time and when the game is over. In the "final scores" mode, the unit displays final scores from the previous day's games. In the "demonstration" mode, the unit merely simulates information shown during a hypothetical NBA game. The core issue in the instant matter is the dissemination of continuously-updated real-time NBA game information in the "current" mode. Because we conclude that the dissemination of such real-time information is lawful, the other modes need no further description or discussion.

SportsTrax's operation relies on a "data feed" supplied by STATS reporters who watch the games on television or listen to them on the radio. The reporters key into a personal computer changes in the score and other information such as successful and missed shots, fouls, and clock updates. The information is relayed by modem to STATS's host computer, which compiles, analyzes, and formats the data for retransmission. The information is then sent to a common carrier, which then sends it via satellite to various local FM radio networks that in turn emit the signal received by the individual SportsTrax pagers.

The NBA's complaint asserted six claims for relief: (i) state law unfair competition by

misappropriation; (ii) false advertising under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a); (iii) false representation of origin under Section 43(a) of the Lanham Act; (iv) state and common law unfair competition by false advertising and false designation of origin; (v) federal copyright infringement; and (vi) unlawful interception of communications under the Communications Act of 1934, 47 U.S.C. § 605. Motorola counterclaimed, alleging that the NBA unlawfully interfered with Motorola's contractual relations with four individual NBA teams that had agreed to sponsor and advertise SportsTrax.

The district court dismissed all of the NBA's claims except the first-- misappropriation under New York law. The court also dismissed Motorola's counterclaim. Finding Motorola and STATS liable for misappropriation, Judge Preska entered the permanent injunction, [FN2] reserved the calculation of damages for subsequent proceedings, and stayed execution of the injunction pending appeal. Motorola and STATS appeal from the injunction, while NBA cross-appeals from the district court's dismissal of its Lanham Act false-advertising claim. The issues before us, therefore, are the state law misappropriation and Lanham Act claims.

FN2. The NBA moved initially for a preliminary injunction and a hearing was held on that motion. Subsequently, the parties agreed to consolidate the hearing into a trial on the merits, submitting supplemental briefing and attending an additional oral argument.

II. THE STATE LAW MISAPPROPRIATION CLAIM

A. Summary of Ruling

Because our disposition of the state law misappropriation claim rests in large part on ***845** preemption by the Copyright Act, our discussion necessarily goes beyond the elements of a misappropriation claim under

New York law, and a summary of our ruling here will perhaps render that discussion--or at least the need for it--more understandable.

The issues before us are ones that have arisen in various forms over the course of this century as technology has steadily increased the speed and quantity of information transmission. Today, individuals at home, at work, or elsewhere, can use a computer, pager, or other device to obtain highly selective kinds of information virtually at will. *International News Service v. Associated Press*, 248 U.S. 215, 39 S.Ct. 68, 63 L.Ed. 211 (1918) ("INS") was one of the first cases to address the issues raised by these technological advances, although the technology involved in that case was primitive by contemporary standards. INS involved two wire services, the Associated Press ("AP") and International News Service ("INS"), that transmitted newsstories by wire to member newspapers. *Id.* INS would lift factual stories from AP bulletins and send them by wire to INS papers. *Id.* at 231, 39 S.Ct. at 69-70. INS would also take factual stories from east coast AP papers and wire them to INS papers on the west coast that had yet to publish because of time differentials. *Id.* at 238, 39 S.Ct. at 72. The Supreme Court held that INS's conduct was a common-law misappropriation of AP's property. *Id.* at 242, 39 S.Ct. at 73-74.

With the advance of technology, radio stations began "live" broadcasts of events such as baseball games and operas, and various entrepreneurs began to use the transmissions of others in one way or another for their own profit. In response, New York courts created a body of misappropriation law, loosely based on INS, that sought to apply ethical standards to the use by one party of another's transmissions of events.

Federal copyright law played little active role in this area until 1976. Before then, it appears to have been the general understanding--there being no caselaw of consequence--that live events such as

baseball games were not copyrightable. Moreover, doubt existed even as to whether a recorded broadcast or videotape of such an event was copyrightable. In 1976, however, Congress passed legislation expressly affording copyright protection to simultaneously- recorded broadcasts of live performances such as sports events. See 17 U.S.C. § 101. Such protection was not extended to the underlying events.

The 1976 amendments also contained provisions preempting state law claims that enforced rights "equivalent" to exclusive copyright protections when the work to which the state claim was being applied fell within the area of copyright protection. See 17 U.S.C. § 301. Based on legislative history of the 1976 amendments, it is generally agreed that a "hot-news" INS-like claim survives preemption. H.R. No. 94-1476 at 132 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5748. However, much of New York misappropriation law after INS goes well beyond "hot-news" claims and is preempted.

[1] We hold that the surviving "hot-news" INS-like claim is limited to cases where: (i) a plaintiff generates or gathers information at a cost; (ii) the information is time-sensitive; (iii) a defendant's use of the information constitutes free riding on the plaintiff's efforts; (iv) the defendant is in direct competition with a product or service offered by the plaintiffs; and (v) the ability of other parties to free-ride on the efforts of the plaintiff or others would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened. We conclude that SportsTrax does not meet that test.

B. Copyrights in Events or Broadcasts of Events

The NBA asserted copyright infringement claims with regard both to the underlying games and to their broadcasts. The district court dismissed these claims, and the NBA does not appeal from their dismissal. Nevertheless, discussion of the infringement

claims is necessary to provide the framework for analyzing the viability of the NBA's state law misappropriation claim in light of the Copyright Act's preemptive effect.

***846** 1. Infringement of a Copyright in the Underlying Games

[2] In our view, the underlying basketball games do not fall within the subject matter of federal copyright protection because they do not constitute "original works of authorship" under 17 U.S.C. § 102(a). Section 102(a) lists eight categories of "works of authorship" covered by the act, including such categories as "literary works," "musical works," and "dramatic works." [FN3] The list does not include athletic events, and, although the list is concededly non-exclusive, such events are neither similar nor analogous to any of the listed categories.

FN3. The text of Section 102(a) reads:

§ 102. Subject matter of copyright: In general

(a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:

- (1) literary works;
- (2) musical works, including any accompanying words;
- (3) dramatic works, including any accompanying music;
- (4) pantomimes and choreographic works;
- (6) motion pictures and other audiovisual works;
- (7) sound recordings; and
- (8) architectural works.

Sports events are not "authored" in any common sense of the word. There is, of course, at least at the professional level, considerable preparation for a game.

However, the preparation is as much an expression of hope or faith as a determination of what will actually happen. Unlike movies, plays, television programs, or operas, athletic events are competitive and have no underlying script. Preparation may even cause mistakes to succeed, like the broken play in football that gains yardage because the opposition could not expect it. Athletic events may also result in wholly unanticipated occurrences, the most notable recent event being in a championship baseball game in which interference with a fly ball caused an umpire to signal erroneously a home run.

What "authorship" there is in a sports event, moreover, must be open to copying by competitors if fans are to be attracted. If the inventor of the T-formation in football had been able to copyright it, the sport might have come to an end instead of prospering. Even where athletic preparation most resembles authorship--figure skating, gymnastics, and, some would uncharitably say, professional wrestling--a performer who conceives and executes a particularly graceful and difficult--or, in the case of wrestling, seemingly painful--acrobatic feat cannot copyright it without impairing the underlying competition in the future. A claim of being the only athlete to perform a feat doesn't mean much if no one else is allowed to try.

For many of these reasons, Nimmer on Copyright concludes that the "[f]ar more reasonable" position is that athletic events are not copyrightable. 1 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 2.09[F] at 2-170.1 (1996). Nimmer notes that, among other problems, the number of joint copyright owners would arguably include the league, the teams, the athletes, umpires, stadium workers and even fans, who all contribute to the "work."

Concededly, caselaw is scarce on the issue of whether organized events themselves are copyrightable, but what there is indicates that they are not. See *Production Contractors, Inc. v. WGN*

Continental Broadcasting Co., 622 F.Supp. 1500 (N.D.Ill.1985) (Christmas parade is not a work of authorship entitled to copyright protection). In claiming a copyright in the underlying games, the NBA relied in part on a footnote in *Baltimore Orioles, Inc. v. Major League Baseball Players Assn.*, 805 F.2d 663, 669 n. 7 (7th Cir.1986), cert. denied, 480 U.S. 941, 107 S.Ct. 1593, 94 L.Ed.2d 782 (1987), which stated that the "[p]layers' performances" contain the "modest creativity required for copyright ability." However, the court went on to state, "Moreover, even if the [p]layers' performances were not sufficiently creative, the [p]layers agree that the cameramen and director contribute creative labor to the telecasts." *Id.* This last sentence indicates that the court was considering the copyright ability of telecasts--not the underlying games, *847 which obviously can be played without cameras.

We believe that the lack of caselaw is attributable to a general understanding that athletic events were, and are, uncopyrightable. Indeed, prior to 1976, there was even doubt that broadcasts describing or depicting such events, which have a far stronger case for copyrightability than the events themselves, were entitled to copyright protection. Indeed, as described in the next subsection of this opinion, Congress found it necessary to extend such protection to recorded broadcasts of live events. The fact that Congress did not extend such protection to the events themselves confirms our view that the district court correctly held that appellants were not infringing a copyright in the NBA games.

2. Infringement of a Copyright in the Broadcasts of NBA Games

As noted, recorded broadcasts of NBA games--as opposed to the games themselves--are now entitled to copyright protection. The Copyright Act was amended in 1976 specifically to insure that simultaneously-recorded transmissions of live performances and sporting events would

meet the Act's requirement that the original work of authorship be "fixed in any tangible medium of expression." 17 U.S.C. § 102(a). Accordingly, Section 101 of the Act, containing definitions, was amended to read:

A work consisting of sounds, images, or both, that are being transmitted, is "fixed" for purposes of this title if a fixation of the work is being made simultaneously with its transmission.

17 U.S.C. § 101. Congress specifically had sporting events in mind:

[T]he bill seeks to resolve, through the definition of "fixation" in section 101, the status of live broadcasts--sports, news coverage, live performances of music, etc.--that are reaching the public in unfixed form but that are simultaneously being recorded.

H.R. No. 94-1476 at 52, reprinted in 1976 U.S.C.C.A.N. at 5665. The House Report also makes clear that it is the broadcast, not the underlying game, that is the subject of copyright protection. In explaining how game broadcasts meet the Act's requirement that the subject matter be an "original work[] of authorship," 17 U.S.C. § 102(a), the House Report stated:

When a football game is being covered by four television cameras, with a director guiding the activities of the four cameramen and choosing which of their electronic images are sent out to the public and in what order, there is little doubt that what the cameramen and the director are doing constitutes "authorship."

H.R. No. 94-1476 at 52, reprinted in 1976 U.S.C.C.A.N. at 5665.

[3] Although the broadcasts are protected under copyright law, the district court correctly held that Motorola and STATS did not infringe NBA's copyright because they reproduced only facts from the broadcasts, not the expression or description of the game that constitutes the broadcast. The "fact/expression dichotomy" is a bedrock principle of copyright law that "limits severely the scope of protection in fact-based works." *Feist Publications, Inc. v. Rural Tel. Service Co.*, 499 U.S. 340, 350, 111 S.Ct. 1282, 1290, 113 L.Ed.2d 358 (1991). " 'No author

may copyright facts or ideas. The copyright is limited to those aspects of the work--termed 'expression'--that display the stamp of the author's originality.' " Id. (quoting *Harper & Row, Publishers, Inc. v. Nation Enter.*, 471 U.S. 539, 547, 105 S.Ct. 2218, 2224, 85 L.Ed.2d 588 (1985)).

We agree with the district court that the "[d]efendants provide purely factual information which any patron of an NBA game could acquire from the arena without any involvement from the director, cameramen, or others who contribute to the originality of a broadcast." 939 F.Supp. at 1094. Because the SportsTrax device and AOL site reproduce only factual information culled from the broadcasts and none of the copyrightable expression of the games, appellants did not infringe the copyright of the broadcasts.

C. The State-Law Misappropriation Claim

The district court's injunction was based on its conclusion that, under New York law, ***848** defendants had unlawfully misappropriated the NBA's property rights in its games. The district court reached this conclusion by holding: (i) that the NBA's misappropriation claim relating to the underlying games was not preempted by Section 301 of the Copyright Act; and (ii) that, under New York common law, defendants had engaged in unlawful misappropriation. Id. at 1094-1107. We disagree.

1. Preemption Under the Copyright Act

a) Summary

When Congress amended the Copyright Act in 1976, it provided for the preemption of state law claims that are interrelated with copyright claims in certain ways. Under 17 U.S.C. § 301, a state law claim is preempted when: (i) the state law claim seeks to vindicate "legal or equitable rights that are equivalent" to one of the bundle of exclusive rights already protected by copyright law under 17 U.S.C. § 106--styled the "general

scope requirement"; and (ii) the particular work to which the state law claim is being applied falls within the type of works protected by the Copyright Act under Sections 102 and 103--styled the "subject matter requirement." [FN4]

FN4. The relevant portions of the statute, 17 U.S.C. § 301, read:

§ 301. Preemption with respect to other laws

(a) On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

(b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to--

(1) subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression; or ...

(3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106.

[4] The district court concluded that the NBA's misappropriation claim was not preempted because, with respect to the underlying games, as opposed to the broadcasts, the subject matter requirement was not met. 939 F.Supp. at 1097. The court dubbed as "partial preemption" its

separate analysis of misappropriation claims relating to the underlying games and misappropriation claims relating to broadcasts of those games. *Id.* at 1098, n. 24. The district court then relied on a series of older New York misappropriation cases involving radio broadcasts that considerably broadened INS. We hold that where the challenged copying or misappropriation relates in part to the copyrighted broadcasts of the games, the subject matter requirement is met as to both the broadcasts and the games. We therefore reject the partial preemption doctrine and its anomalous consequence that "it is possible for a plaintiff to assert claims both for infringement of its copyright in a broadcast and misappropriation of its rights in the underlying event." *Id.* We do find that a properly-narrowed INS "hot-news" misappropriation claim survives preemption because it fails the general scope requirement, but that the broader theory of the radio broadcast cases relied upon by the district court were preempted when Congress extended copyright protection to simultaneously-recorded broadcasts.

b) "Partial Preemption" and the Subject Matter Requirement

[5][6] The subject matter requirement is met when the work of authorship being copied or misappropriated "fall[s] within the ambit of copyright protection." *Harper & Row, Publishers, Inc. v. Nation Enter.*, 723 F.2d 195, 200 (1983), rev'd on other grounds, 471 U.S. 539, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985). We believe that the subject matter requirement is met in the instant matter and that the concept of "partial preemption" is not consistent with Section 301 of the Copyright Act. Although game broadcasts are copyrightable while the underlying games are not, the Copyright Act should not be ***849** read to distinguish between the two when analyzing the preemption of a misappropriation claim based on copying or taking from the copyrightable work. We believe that:

[O]nce a performance is reduced to tangible form, there is no distinction

between the performance and the recording of the performance for the purposes of preemption under § 301(a). Thus, if a baseball game were not broadcast or were telecast without being recorded, the Players' performances similarly would not be fixed in tangible form and their rights of publicity would not be subject to preemption. By virtue of being videotaped, however, the Players' performances are fixed in tangible form, and any rights of publicity in their performances that are equivalent to the rights contained in the copyright of the telecast are preempted.

Baltimore Orioles, 805 F.2d at 675 (citation omitted).

[7] Copyrightable material often contains uncopyrightable elements within it, but Section 301 preemption bars state law misappropriation claims with respect to uncopyrightable as well as copyrightable elements. In *Harper & Row*, for example, we held that state law claims based on the copying of excerpts from President Ford's memoirs were preempted even with respect to information that was purely factual and not copyrightable. We stated:

[T]he [Copyright] Act clearly embraces "works of authorship," including "literary works," as within its subject matter. The fact that portions of the Ford memoirs may consist of uncopyrightable material ... does not take the work as a whole outside the subject matter protected by the Act. Were this not so, states would be free to expand the perimeters of copyright protection to their own liking, on the theory that preemption would be no bar to state protection of material not meeting federal statutory standards.

723 F.2d at 200 (citation omitted). The legislative history supports this understanding of Section 301(a)'s subject matter requirement. The House Report stated:

As long as a work fits within one of the general subject matter categories of sections 102 and 103, the bill prevents the States from protecting it even if it fails to achieve Federal statutory copyright

because it is too minimal or lacking in originality to qualify, or because it has fallen into the public domain.

H.R. No. 94-1476 at 131, reprinted in 1976 U.S.C.C.A.N. at 5747. See also *Baltimore Orioles*, 805 F.2d at 676 (citing excerpts of House Report 94- 1476).

Adoption of a partial preemption doctrine--preemption of claims based on misappropriation of broadcasts but no preemption of claims based on misappropriation of underlying facts--would expand significantly the reach of state law claims and render the preemption intended by Congress unworkable. It is often difficult or impossible to separate the fixed copyrightable work from the underlying uncopyrightable events or facts. Moreover, Congress, in extending copyright protection only to the broadcasts and not to the underlying events, intended that the latter be in the public domain. Partial preemption turns that intent on its head by allowing state law to vest exclusive rights in material that Congress intended to be in the public domain and to make unlawful conduct that Congress intended to allow. This concern was recently expressed in *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir.1996), a case in which the defendants reproduced non-copyrightable facts (telephone listings) from plaintiffs' copyrighted software. In discussing preemption under Section 301(a), Judge Easterbrook held that the subject matter requirement was met and noted:

ProCD's software and data are "fixed in a tangible medium of expression", and the district judge held that they are "within the subject matter of copyright". The latter conclusion is plainly right for the copyrighted application program, and the judge thought that the data likewise are "within the subject matter of copyright" even if, after *Feist*, they are not sufficiently original to be copyrighted. [*ProCD, Inc. v. Zeidenberg*,] 908 F.Supp. [640] at 656-57 [(W.D.Wis. 1996)]. *Baltimore Orioles, Inc. v. Major League Baseball Players Ass'n*, 805 F.2d 663, 676 (7th Cir.1986), supports that conclusion, with which commentators

***850** agree.... One function of § 301(a) is to prevent states from giving special protection to works of authorship that Congress has decided should be in the public domain, which it can accomplish only if "subject matter of copyright" includes all works of a type covered by sections 102 and 103, even if federal law does not afford protection to them.

ProCD, 86 F.3d at 1453 (citation omitted). We agree with Judge Easterbrook and reject the separate analysis of the underlying games and broadcasts of those games for purposes of preemption.

c) The General Scope Requirement

[8] Under the general scope requirement, Section 301 "preempts only those state law rights that 'may be abridged by an act which, in and of itself, would infringe one of the exclusive rights' provided by federal copyright law." *Computer Assoc. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 716 (2d Cir.1992) (quoting *Harper & Row*, 723 F.2d at 200). However, certain forms of commercial misappropriation otherwise within the general scope requirement will survive preemption if an "extra-element" test is met. As stated in *Altai*:

But if an "extra element" is "required instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, then the right does not lie 'within the general scope of copyright,' and there is no preemption."

Id. (quoting 1 *Nimmer on Copyright* § 1.01[B] at 1-15).

ProCD was in part an application of the extra-element test. Having held the misappropriation claims to be preempted, Judge Easterbrook went on to hold that the plaintiffs could bring a state law contract claim. The court held that the defendants were bound by the software's shrink-wrap licenses as a matter of contract law and that the private contract rights were not preempted because they were not equivalent to the exclusive rights granted by copyright law. In other words, the contract

right claims were not preempted because the general scope requirement was not met. ProCD, 86 F.3d at 1455.

We turn, therefore, to the question of the extent to which a "hot-news" misappropriation claim based on INS involves extra elements and is not the equivalent of exclusive rights under a copyright. Courts are generally agreed that some form of such a claim survives preemption. *Financial Information, Inc. v. Moody's Investors Service, Inc.*, 808 F.2d 204, 208 (2d Cir.1986), cert. denied, 484 U.S. 820, 108 S.Ct. 79, 98 L.Ed.2d 42 (1987) ("FII "). This conclusion is based in part on the legislative history of the 1976 amendments. The House Report stated:

"Misappropriation" is not necessarily synonymous with copyright infringement, and thus a cause of action labeled as "misappropriation" is not preempted if it is in fact based neither on a right within the general scope of copyright as specified by section 106 nor on a right equivalent thereto. For example, state law should have the flexibility to afford a remedy (under traditional principles of equity) against a consistent pattern of unauthorized appropriation by a competitor of the facts (i.e., not the literary expression) constituting "hot" news, whether in the traditional mold of *International News Service v. Associated Press*, 248 U.S. 215 [39 S.Ct. 68, 63 L.Ed. 211] (1918), or in the newer form of data updates from scientific, business, or financial data bases.

H.R. No. 94-1476 at 132, reprinted in 1976 U.S.C.C.A.N. at 5748 (footnote omitted), [FN5] see also FII, 808 F.2d at 209 (" 'misappropriation' of 'hot' news, under *International News Service*, [is] a branch of the unfair competition doctrine not preempted by the Copyright Act according to the House Report" (citation omitted)). The crucial question, therefore, is the breadth of the "hot-news" claim that survives preemption.

FN5. Although this passage implies that INS survives preemption

because it fails the general scope requirement, *Nimmer* apparently takes the view adopted by the district court, namely that INS survives preemption because the subject matter requirement is not met. *Nimmer* § 1.01[B][2][b] at 1-44.2.

***851** In *INS*, the plaintiff AP and defendant INS were "wire services" that sold news items to client newspapers. AP brought suit to prevent INS from selling facts and information lifted from AP sources to INS-affiliated newspapers. One method by which INS was able to use AP's news was to lift facts from AP news bulletins. *INS*, 248 U.S. at 231, 39 S.Ct. at 69-70. Another method was to sell facts taken from just-published east coast AP newspapers to west coast INS newspapers whose editions had yet to appear. *Id.* at 238, 39 S.Ct. at 72. The Supreme Court held (prior to *Erie R. Co. v. Tompkins*, 304 U.S. 64, 58 S.Ct. 817, 82 L.Ed. 1188 (1938)), that INS's use of AP's information was unlawful under federal common law. It characterized INS's conduct as

amount[ing] to an unauthorized interference with the normal operation of complainant's legitimate business precisely at the point where the profit is to be reaped, in order to divert a material portion of the profit from those who have earned it to those who have not; with special advantage to defendant in the competition because of the fact that it is not burdened with any part of the expense of gathering the news.

INS, 248 U.S. at 240, 39 S.Ct. at 72-73.

The theory of the New York misappropriation cases relied upon by the district court is considerably broader than that of *INS*. For example, the district court quoted at length from *Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp.*, 199 Misc. 786, 101 N.Y.S.2d 483 (N.Y.Sup.Ct.1950), aff'd, 279 A.D. 632, 107 N.Y.S.2d 795 (1st Dep't 1951). *Metropolitan Opera* described New York misappropriation law as standing for the "broader principle that property rights of commercial value are

to be and will be protected from any form of commercial immorality"; that misappropriation law developed "to deal with business malpractices offensive to the ethics of [] society"; and that the doctrine is "broad and flexible." 939 F.Supp. at 1098-1110 (quoting *Metropolitan Opera*, 101 N.Y.S.2d at 492, 488-89).

However, we believe that *Metropolitan Opera*'s broad misappropriation doctrine based on amorphous concepts such as "commercial immorality" or society's "ethics" is preempted. Such concepts are virtually synonymous for wrongful copying and are in no meaningful fashion distinguishable from infringement of a copyright. The broad misappropriation doctrine relied upon by the district court is, therefore, the equivalent of exclusive rights in copyright law.

Indeed, we said as much in *FII*. That decision involved the copying of financial information by a rival financial reporting service and specifically repudiated the broad misappropriation doctrine of *Metropolitan Opera*. We explained:

We are not persuaded by *FII*'s argument that misappropriation is not "equivalent" to the exclusive rights provided by the Copyright Act.... Nor do we believe that a possible exception to the general rule of preemption in the misappropriation area--for claims involving "any form of commercial immorality,"... quoting *Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp.*, 199 Misc. 786, 101 N.Y.S.2d 483, ...--should be applied here. We believe that no such exception exists and reject its use here. Whether or not reproduction of another's work is "immoral" depends on whether such use of the work is wrongful. If, for example, the work is in the public domain, then its use would not be wrongful. Likewise, if, as here, the work is unprotected by federal law because of lack of originality, then its use is neither unfair nor unjustified.

FII, 808 F.2d at 208. In fact, *FII* only begrudgingly concedes that even narrow "hot news" INS-type claims survive preemption. *Id.* at 209.

Moreover, *Computer Associates Intern., Inc. v. Altai Inc.* indicated that the "extra element" test should not be applied so as to allow state claims to survive preemption easily. 982 F.2d at 717. "An action will not be saved from preemption by elements such as awareness or intent, which alter 'the action's scope but not its nature'.... Following this 'extra element' test, we have held that unfair competition and misappropriation claims grounded solely in the copying of a plaintiff's protected expression are preempted by section 301." *Id.* (citation omitted).

***852** In light of cases such as *FII* and *Altai* that emphasize the narrowness of state misappropriation claims that survive preemption, most of the broadcast cases relied upon by the NBA are simply not good law. Those cases were decided at a time when simultaneously-recorded broadcasts were not protected under the Copyright Act and when the state law claims they fashioned were not subject to federal preemption. For example, *Metropolitan Opera*, 101 N.Y.S.2d 483, involved the unauthorized copying, marketing, and sale of opera radio broadcasts. As another example, in *Mutual Broadcasting System v. Muzak Corp.*, 177 Misc. 489, 30 N.Y.S.2d 419 (Sup.Ct.1941), the defendant simultaneously retransmitted the plaintiff's baseball radio broadcasts onto telephone lines. As discussed above, the 1976 amendments to the Copyright Act were specifically designed to afford copyright protection to simultaneously-recorded broadcasts, and *Metropolitan Opera* and *Muzak* could today be brought as copyright infringement cases. Moreover, we believe that they would have to be brought as copyright cases because the amendments affording broadcasts copyright protection also preempted the state law misappropriation claims under which they were decided.

Our conclusion, therefore, is that only a narrow "hot-news" misappropriation claim survives preemption for actions concerning material within the realm of copyright. [FN6] See also 1 McCarthy on Trademarks and

Unfair Competition (4th ed. 1996), § 10:69, at 10-134 (discussing *National Exhibition Co. v. Fass*, 133 N.Y.S.2d 379 (Sup.Ct.1954), *Muzak*, 30 N.Y.S.2d 419, and other cases relied upon by NBA that pre-date the 1976 amendment to the Copyright Act and concluding that after the amendment, "state misappropriation law would be unnecessary and would be preempted: protection is solely under federal copyright"). [FN7]

FN6. State law claims involving breach of fiduciary duties or trade-secret claims are not involved in this matter and are not addressed by this discussion. These claims are generally not preempted because they pass the "extra elements" test. See *Altai*, 982 F.2d at 717.

FN7. Quite apart from Copyright Act preemption, INS has long been regarded with skepticism by many courts and scholars and often confined strictly to its facts. In particular, Judge Learned Hand was notably hostile to a broad reading of the case. He wrote:

[W]e think that no more was covered than situations substantially similar to those then at bar. The difficulties of understanding it otherwise are insuperable. We are to suppose that the court meant to create a sort of common-law patent or copyright for reasons of justice. Either would flagrantly conflict with the scheme which Congress has for more than a century devised to cover the subject-matter.

Cheney Bros. v. Doris Silk Corp., 35 F.2d 279, 280 (2d Cir.1929), cert. denied, 281 U.S. 728, 50 S.Ct. 245, 74 L.Ed. 1145 (1930). See also Restatement (Third) of Unfair Competition § 38 cmt. c (1995):

The facts of the INS decision are unusual and may serve, in part, to limit its rationale.... The limited

extent to which the INS rationale has been incorporated into the common law of the states indicate that the decision is properly viewed as a response to unusual circumstances rather than as a statement of generally applicable principles of common law. Many subsequent decisions have expressly limited the INS case to its facts.

In our view, the elements central to an INS claim are: (i) the plaintiff generates or collects information at some cost or expense, see *FII*, 808 F.2d at 206; *INS*, 248 U.S. at 240, 39 S.Ct. at 72-73; (ii) the value of the information is highly time-sensitive, see *FII*, 808 F.2d at 209; *INS*, 248 U.S. at 231, 39 S.Ct. at 69-70; Restatement (Third) Unfair Competition, § 38 cmt. c.; (iii) the defendant's use of the information constitutes free-riding on the plaintiff's costly efforts to generate or collect it, see *FII*, 808 F.2d at 207; *INS*, 248 U.S. at 239-40, 39 S.Ct. at 72-73; Restatement § 38 at cmt. c.; *McCarthy*, § 10:73 at 10-139; (iv) the defendant's use of the information is in direct competition with a product or service offered by the plaintiff, *FII*, 808 F.2d at 209, *INS*, 248 U.S. at 240, 39 S.Ct. at 72-73; (v) the ability of other parties to free-ride on the efforts of the plaintiff would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened, *FII*, 808 F.2d at 209; Restatement, § 38 at cmt. c.; *INS*, 248 U.S. at 241, 39 S.Ct. at 73 ("[INS's conduct] would render [AP's] publication profitless, or so little profitable as in effect to cut off the service by rendering the cost prohibitive in comparison with the return.") [***853** FN8]

FN8. Some authorities have labeled this element as requiring direct competition between the defendant and the plaintiff in a primary market. "[I]n most of the small number of cases in which the misappropriation doctrine has been determinative, the defendant's appropriation, like that in *INS*, resulted in direct competition in the plaintiffs' primary market ...

Appeals to the misappropriation doctrine are almost always rejected when the appropriation does not intrude upon the plaintiff's primary market.", Restatement (Third) of Unfair Competition, § 38 cmt. c, at 412-13; see also *National Football League v. Governor of State of Delaware*, 435 F.Supp. 1372 (D.Del.1977). In that case, the NFL sued Delaware over the state's lottery game which was based on NFL games. In dismissing the wrongful misappropriation claims, the court stated:

While courts have recognized that one has a right to one's own harvest, this proposition has not been construed to preclude others from profiting from demands for collateral services generated by the success of one's business venture.

Id. at 1378. The court also noted, "It is true that Delaware is thus making profits it would not make but for the existence of the NFL, but I find this difficult to distinguish from the multitude of charter bus companies who generate profit from servicing those of plaintiffs' fans who want to go to the stadium or, indeed, the sidewalk popcorn salesman who services the crowd as it surges towards the gate." *Id.*

INS is not about ethics; it is about the protection of property rights in time-sensitive information so that the information will be made available to the public by profit seeking entrepreneurs. If services like AP were not assured of property rights in the news they pay to collect, they would cease to collect it. The ability of their competitors to appropriate their product at only nominal cost and thereby to disseminate a competing product at a lower price would destroy the incentive to collect news in the first place. The newspaper-reading public would suffer because no one would have an incentive to collect "hot news."

[9] We therefore find the extra elements--those in addition to the elements of copyright infringement--that allow a "hotnews" claim to survive preemption are: (i) the time-sensitive value of factual information, (ii) the free-riding by a defendant, and (iii) the threat to the very existence of the product or service provided by the plaintiff.

2. The Legality of SportsTrax

[10] We conclude that Motorola and STATS have not engaged in unlawful misappropriation under the "hot-news" test set out above. To be sure, some of the elements of a "hot-news" INS claim are met. The information transmitted to SportsTrax is not precisely contemporaneous, but it is nevertheless time-sensitive. Also, the NBA does provide, or will shortly do so, information like that available through SportsTrax. It now offers a service called "Gamestats" that provides official play-by-play game sheets and half-time and final box scores within each arena. It also provides such information to the media in each arena. In the future, the NBA plans to enhance Gamestats so that it will be networked between the various arenas and will support a pager product analogous to SportsTrax. SportsTrax will of course directly compete with an enhanced Gamestats.

However, there are critical elements missing in the NBA's attempt to assert a "hot-news" INS-type claim. As framed by the NBA, their claim compresses and confuses three different informational products. The first product is generating the information by playing the games; the second product is transmitting live, full descriptions of those games; and the third product is collecting and retransmitting strictly factual information about the games. The first and second products are the NBA's primary business: producing basketball games for live attendance and licensing copyrighted broadcasts of those games. The collection and retransmission of strictly factual material about the games is a different product: e.g., box-scores in newspapers, summaries of statistics on

television sports news, and real-time facts to be transmitted to pagers. In our view, the NBA has failed to show any competitive effect whatsoever from SportsTrax on the first and second products and a lack of any free-riding by SportsTrax on the third.

With regard to the NBA's primary products--producing basketball games with live attendance and licensing copyrighted broadcasts of those games--there is no evidence ***854** that anyone regards SportsTrax or the AOL site as a substitute for attending NBA games or watching them on television. In fact, Motorola markets SportsTrax as being designed "for those times when you cannot be at the arena, watch the game on TV, or listen to the radio ..."

The NBA argues that the pager market is also relevant to a "hot-news" INS-type claim and that SportsTrax's future competition with Gamestats satisfies any missing element. We agree that there is a separate market for the real-time transmission of factual information to pagers or similar devices, such as STATS's AOL site. However, we disagree that SportsTrax is in any sense free-riding off Gamestats.

An indispensable element of an INS "hot-news" claim is free riding by a defendant on a plaintiff's product, enabling the defendant to produce a directly competitive product for less money because it has lower costs. SportsTrax is not such a product. The use of pagers to transmit real-time information about NBA games requires: (i) the collecting of facts about the games; (ii) the transmission of these facts on a network; (iii) the assembling of them by the particular service; and (iv) the transmission of them to pagers or an on-line computer site. Appellants are in no way free-riding on Gamestats. Motorola and STATS expend their own resources to collect purely factual information generated in NBA games to transmit to SportsTrax pagers. They have their own network and assemble and transmit data themselves.

To be sure, if appellants in the future were to collect facts from an enhanced Gamestats pager to retransmit them to SportsTrax pagers, that would constitute free-riding and might well cause Gamestats to be unprofitable because it had to bear costs to collect facts that SportsTrax did not. If the appropriation of facts from one pager to another pager service were allowed, transmission of current information on NBA games to pagers or similar devices would be substantially deterred because any potential transmitter would know that the first entrant would quickly encounter a lower cost competitor free-riding on the originator's transmissions. [FN9]

FN9. It may well be that the NBA's product, when enhanced, will actually have a competitive edge because its Gamestats system will apparently be used for a number of in-stadium services as well as the pager market, resulting in a certain amount of cost sharing. Gamestats might also have a temporal advantage in collecting and transmitting official statistics. Whether this is so does not affect our disposition of this matter, although it does demonstrate the gulf between this case and INS, where the free-riding created the danger of no wire service being viable.

However, that is not the case in the instant matter. SportsTrax and Gamestats are each bearing their own costs of collecting factual information on NBA games, and, if one produces a product that is cheaper or otherwise superior to the other, that producer will prevail in the marketplace. This is obviously not the situation against which INS was intended to prevent: the potential lack of any such product or service because of the anticipation of free-riding.

For the foregoing reasons, the NBA has not shown any damage to any of its products based on free-riding by Motorola and STATS, and the NBA's misappropriation

claim based on New York law is preempted.
[FN10]

FN10. In view of our disposition of this matter, we need not address appellants' First Amendment and laches defenses.

III. THE NBA'S CROSS-APPEAL

[11] The NBA cross-appeals from the district court's dismissal of its false advertising claim under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). [FN11] This claim was *855 based on a January 1996 Motorola press release stating that SportsTrax provides "updated game information direct from each arena" which "originate[s] from the press table in each arena" and on a statement appearing on the spine of the retail box and on the retail display stand that SportsTrax provides "game updates from the arena."

FN11. The text of 15 U.S.C. § 1125(a)(1) reads in pertinent part:
§ 1125. False designations of origin, false descriptions, and dilution forbidden

(a) Civil action; any person

(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, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or

another person's goods, services, or commercial activities, 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.

NBA argues that because STATS reporters collect their information from television and radio broadcasts, the information is not "direct from each arena" or even "from the arena." Motorola responds that the statement about information coming from the press table was an isolated remark occurring only in that press release. It also claims that the assertion that the game updates come "from the arena" is not literally false, presumably because the factual information does originate in the arena.

[12][13] To establish a false advertising claim under Section 43(a), the plaintiff must demonstrate that the statement in the challenged advertisement is false. "Falsity may be established by proving that (1) the advertising is literally false as a factual matter, or (2) although the advertisement is literally true, it is likely to deceive or confuse customers." *Lipton v. Nature Co.*, 71 F.3d 464, 474 (2d Cir.1995). However, in addition to proving falsity, the plaintiff must also show that the defendants "misrepresented an 'inherent quality or characteristic' " of the product. *National Assoc. of Pharmaceutical Mfrs. v. Ayerst Lab.*, 850 F.2d 904, 917 (2d Cir.1988) (quoting *Vidal Sassoon, Inc. v. Bristol-Myers Co.*, 661 F.2d 272, 278 (2d Cir.1981)). This requirement is essentially one of materiality, a term explicitly used in other circuits. See *American Tel. & Tel. Co. v. Winback and Conserve Program, Inc.*, 42 F.3d 1421, 1428 n. 9 (3d Cir.1994) (plaintiff alleging false advertising must prove "that the deception is material in that it is likely to influence purchasing decisions") (citations and internal quotation marks omitted), cert. denied, --- U.S. ---, 115 S.Ct. 1838, 131 L.Ed.2d 757 (1995); *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 964 (D.C.Cir.1990) (false or misleading ads must be "material in their effects on buying decisions"); *Taquino v. Teledyne Monarch*

Rubber, 893 F.2d 1488, 1500 (5th Cir.1990) (deception must be "material, in that it is likely to influence the purchasing decision"); see also 3 McCarthy on Trademarks § 27:35 at 27-54 (there must be "some showing that the defendant's misrepresentation was 'material' in the sense that it would have some effect on consumers' purchasing decisions.").

The district court found, "[a]fter viewing the complained-of statements in this action in their context," that "[t]he statements as to the particular origin of game updates constitute nothing more than minutiae about SportsTrax." 939 F.Supp. at 1110. We agree with the district court that the statements in question are not material in the present factual context. The inaccuracy in the statements would not influence consumers at the present time, whose interest in obtaining updated game scores on pagers is served only by SportsTrax. Whether the data is taken from broadcasts instead of being observed first-hand is, therefore, simply irrelevant. However, we note that if the NBA were in the future to market a rival pager with a direct datafeed from the arenas--perhaps with quicker updates than SportsTrax and official statistics--then Motorola's statements regarding source might well be materially misleading. On the present facts, however, the complained-of statements are not material and do not misrepresent an inherent quality or characteristic of the product.

IV. CONCLUSION

We vacate the injunction entered by the district court and order that the NBA's claim for misappropriation be dismissed. We affirm the district court's dismissal of the NBA's claim for false advertising under Section 43(a) of the Lanham Act.

Intellectual/Property Theory

Carol Rose, *The Comedy of the Commons: Custom, Commerce and Inherently Public Property*, 53 U. CHI. L. REV. 711 (1986).

Michael A. Heller, *The Tragedy of the Anticommons: Property in the Transition from Marx to Markets*, 111 HARV. L. REV. 621 (1998).

James Boyle, *A Politics of Intellectual Property: Environmentalism for the Net?* 47 Duke L.J. 87 (1997)

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University of Chicago Law Review
Summer, 1986

TITLE: THE COMEDY OF THE COMMONS: CUSTOM, COMMERCE, AND INHERENTLY
PUBLIC PROPERTY

AUTHOR: Carol Rose [FNp]

BODY:

I. INTRODUCTION: THE CONUNDRUM OF 'PUBLIC PROPERTY'

The right to exclude others has often been cited as the most important characteristic of private property. [FN1] This right, it is said, makes private property fruitful by enabling owners to capture the full value of their individual investments, thus encouraging everyone to put time and labor into the development of resources. [FN2]

Moreover, exclusive control makes it possible for owners to identify other owners, and for all to exchange the fruits of their labors, until these things arrive in the hands of those who value them ***712** most highly--to the great cumulative advantage of all. [FN3] Thus exclusive private property is thought to foster the well-being of the community, giving its members a medium in which resources are used, conserved and exchanged to their greatest advantage. There is nothing new about this set of ideas; Richard Posner, a modern-day proponent of neoclassical economics, remarks that the wealth-enhancing value of property rights 'has been well known for several hundred years.' [FN4] Posner cites Blackstone for this proposition, [FN5] and indeed, since the advent of eighteenth-century classical economics, it has been widely believed that the whole world is best managed when divided among private owners. [FN6]

The obverse of this coin is the 'tragedy of the commons.' [FN7] When things are left open to the public, they are thought to be wasted by overuse or underuse. No one wishes to invest in something that may be taken from him tomorrow, and no one knows whom to approach to make exchanges. All resort to snatching up what is available for 'capture' today, leaving behind a wasteland. [FN8] From this perspective, 'public property' is an oxymoron: things left open to the public are not property at all, but rather its antithesis.

***713** Thus it is peculiar to find a longstanding notion of 'public property' in the law of the western world. The Romans, whose legal thinking greatly influenced later European law, were sufficiently interested in 'public property' to separate it into at least four categories. [FN9] And despite the power of the classical economic argument for private property, a curious cross-current has continually washed through American law. Our legal doctrine has strongly suggested that some kinds of property should not be held exclusively in private hands, but should be open to the public or at least subject to what Roman law called the 'jus publicum': the 'public right.' [FN10]

Moreover, this view is not merely a vestige of premodern thought; there is currently an extensive academic and judicial discussion of the possibility that certain kinds of property ought to be public. In recent years, the most striking version of this 'inherent publicness' argument has appeared in a series of cases expanding public access to waterfront property. [FN11] The land between the low and high tides has traditionally been considered 'public property,' or at least subject to a public easement for navigational and fishing purposes. [FN12] But some modern

courts have stretched this easement to include a new use--recreation--and have expanded its area from the tidelands to the dry sand areas landward of the high-tide *714 mark. [FN13]

These new cases extrapolate from older precedents in which the public acquired--or allegedly reasserted--claims to certain types of property, most notably roadways and lands under navigable waters. Like the older precedents, the new beach cases usually employ one of three theoretical bases: (1) a 'public trust' theory, to the effect that the public has always rights of access to the property in question, and that any private rights are subordinate to the public's 'trust' rights; [FN14] (2) a prescriptive or dedicatory theory, by which a period of public usage gives rise to an implied grant or gift from private owners; [FN15] and (3) a theory of 'custom,' where the public asserts ownership of property under some claim so ancient that it antedates any memory to the contrary. [FN16]

These theories of increased public access to shores and waterways have garnered a vocal but decidedly mixed reaction. In discussing these theories, some commentators applaud what they regard as a proper recognition of public needs. [FN17] The public trust *715 idea in particular has spawned an enormous number of cases and articles, [FN18] some urging extension of a public trust to a much wider range of property where public access or control should be vindicated. [FN19] But there have also been several very sharp critiques of these cases and articles, and of the expansive doctrines of public control they propound. Some critics deny the underlying public trust and dedicatory theories, and deplore what they see as an unjust and disruptive destruction of private property rights. [FN20] They argue that if the public wants or needs these waterfront lands so much, it should have to purchase them from the private owners. [FN21] Moreover, they warn of the consequences of these uncompensated and unpredictable transfers of property rights: frustrated private owners may overreact in trying to protect their property from any implication of 'dedication' by installing guard dogs or blowing up access paths to the beach. [FN22]

More generally, these critics reiterate the basic arguments in favor of private ownership: uncertainty about property rights invites *716 conflicts and squanders resources. The public access cases turn the waterfront into a 'commons,' where no one has any incentive to purchase the property, invest in it, or care for it, but only to consume as much as possible--all of which leads to deterioration and waste. [FN23] Indeed one author, though not entirely unsympathetic to the new cases, sees them as repudiating the view that the common law is efficient: these cases, he asserts, reverse common law doctrines that were relatively efficient while reasserting inefficient common law doctrines. [FN24]

It is no wonder that these new cases and doctrines expanding public waterfront access are controversial, given their impact on what were thought to be private entitlements. But the question whether these expanded doctrines 'take' property without compensation, although exceedingly important to private owners, is in principle perhaps not the most radical issue about these cases. Their rhetoric suggests that no nonconsensual transfer has occurred; in theory, the owner gave or granted his property to the public, or only owned it subject to public rights. Even though this rhetoric sounds implausible, the cases at least pay lip service to the principle that private property may not be taken without compensation. [FN25]

The more radical feature of these cases is precisely their seeming defiance of classical economic thinking and the common law doctrines so markedly mirroring that theory: they show a preference for public access, superior to the right to exclude that is the supposed hallmark of private property. Such theories are singular exceptions to the standard doctrines of property law. Most property is not impressed with a 'public trust' allowing access; why should the beaches be?

It begs the question to say that the new cases merely extrapolate from older doctrine about navigable waterways:^{*717} why did the old cases hold submerged lands subject to such a trust? By the same token, no amount of general public usage will subject most property to divestment, either by 'implied dedication' or by analogy to adverse possession. [FN26] Again, to find analogies in older doctrine about roadways is only to push the question one step back. As to custom, the same questions apply. Until the modern beach cases, 'custom' had almost no authority in American law. [FN27] Can there possibly be a link between American waterfront recreation and the rights of eighteenth-century British villagers to dig out turf and hold maypole dances on the lord of the manor's lands?

Why, in short, is any property inherently or even presumptively withdrawn from exclusive private appropriation? What characteristics of the property require it to be open to the public at large, and exempt from the classical economic presumption favoring exclusive control?

Perhaps these doctrines are indeed easily explicable through classical economic thought, and can be subsumed under the well-recognized exceptions to the general principle favoring private and exclusive property rights: 'plenteous' goods and 'public goods.' The first class of exception concerns things that are either so plentiful or so unbounded that it is not worth the effort to create a system of resource management for them, or--stated differently--things for which the difficulty of privatization outweighs the gains in careful resource management. [FN28] Thus the oceans and ^{*718} air (it used to be said) are at once so plentiful and so difficult to reduce to property that they are left open to the public at large. [FN29]

The 'plenitude' or 'boundlessness' exceptions, however, fail to explain the 'publicness' of those properties that our traditional doctrines most strongly deemed public property. Roadways, waterways, and submerged lands--not to speak of open squares, which have also sometimes been presumed public--are hardly so copious or so unbounded that they are incapable of privatization. Riverbeds and shorelands can be staked out, roadways can be obstructed, waterways diverted, squares plowed up; in short, they can easily be 'reduced to possession' in the classic common law manner of creating proprietary rights out of a 'commons.' [FN30] Thus the 'public' character of such lands, or even a public easement over them, must have some basis other than our incapacity to reduce them to private possession.

The second exception to the general rule favoring private property may be of more assistance. Since the mid-nineteenth century, economists have told us that there exist predictable instances ^{*719} of 'market failure,' where Adam Smith's invisible hand fails to guide privately owned resources to their socially optimal uses. These involve 'public goods,' 'natural monopolies,' 'externalities,' and the like. While some of these problems may be solved by collective agreements among the owners of the resources, such agreements are costly and, particularly where a large number of parties must be involved, private collective action is not always possible. Inefficiencies will remain.

Thus a governmental body might be the most useful manager where many persons desire access to or control over a given property, but they are too numerous and their individual stakes too small to express their preferences in market transactions; governmental ownership could broker those preferences. [FN31] Similarly, a government might be a superior manager (or regulator) of a property whose use involves economies of scale--the railways, bridges, or grain elevators whose monopoly position classically justified governmental ownership or control. [FN32] Or a government might be a superior manager of those 'collective goods' like the broadcast spectrum, wherein some management structure is required to make individual users take account of other users' interests. [FN33] In a sense, we rely on governmental management

of our preeminent system of resource management--private property--and we might view the entire private property regime as a 'public property' owned and managed by governmental bodies. [FN34]

Conventional wisdom instructs that in such cases, the most productive solution would be for government to assume some or all of the rights of ownership and control over the property, and to use its powers to correct the market's misallocation. This conventional conclusion is subject to four conventional caveats: the state must be able correctly to identify instances of market failure; it ***720** must be clever enough to exercise its powers so as to reduce the inefficiency; it must avoid errors or political temptations to exercise its powers in ways that create new inefficiencies; and the costs of effective state intervention must not exceed the increase in production it brings about.

This standard paradigm of neoclassical economics and modern microeconomic theory recognizes only two property regimes: either ownership is vested in private parties or it resides with an organized state. The usual economic approach to property law suggests that productive efficiency will be enhanced when private property is the norm, but government intervenes in recognized instances of market failure.

Thus in the conventional lore, markets are based on private rights or, when markets fail, property may be governmentally managed in the interests of aggregate efficiency. Yet these two options do not logically exhaust all the possible solutions. Neither can they adequately describe all that one finds in the recorded history of property in the Anglo-American universe. In particular, there lies outside purely private property and government-controlled 'public property' a distinct class of 'inherently public property' which is fully controlled by neither government nor private agents. Since the Middle Ages this category of 'inherently public property' has provided each member of some 'public' with a bundle of rights, neither entirely alienable by state or other collective action, nor necessarily 'managed' in any explicitly organized manner. Aside from individual private property, the nineteenth-century common law of property in both Britain and America, with surprising consistency, recognized two distinguishable types of public property. One of these was property 'owned' and actively managed by a governmental body. The other, however, was property collectively 'owned' and 'managed' by society at large, with claims independent of and indeed superior to the claims of any purported governmental manager. It is this latter type that I call 'inherently public property.'

Implicit in these older doctrines is the notion that, even if a property should be open to the public, it does not follow that public rights should necessarily vest in an active governmental manager. Despite the well-known problems of unorganized collective access to a resource--the 'tragedy of the commons'--equally difficult problems are posed by governmental management: the cost of instituting that management and, perhaps, the temptations of politically motivated redistribution. In some circumstances, then, nineteenth-century common law recognized collective public rights ***721** as the optimal alternative whether or not those rights were managed governmentally.

Thus our historic doctrines about 'inherently public' property in part vested property rights in the 'unorganized public' rather than in a governmentally-organized public. [FN35] For example, the public sometimes had a right of access to property whether or not a governmental body had intervened. [FN36] Moreover, the 'trust' language of public property doctrine, in an echo of natural law thinking, suggested that governments had some enforceable duties to preserve the property of the 'unorganized' public. [FN37] Indeed the 'trust' language suggested that even governmental ownership of certain property is only a 'qualified,' 'legal' ownership, for the 'use' of public at large, which in classic trust language is the beneficial owner. [FN38]

Yet property in such an unorganized public would amount to an unlimited commons, which seems not to be property at all, but only a mass of passive 'things' awaiting reduction to private property through the rule of capture or, worse yet, their squandering in the usual 'tragedy of the commons.' Nevertheless, strange though it may seem, precisely this unorganized version of the 'public' is strongly suggested in some of the earlier public property doctrine--and in some modern law as well. [FN39]

***722** The modern doctrines are singularly unhelpful in explaining why and under what circumstances property rights might appear to vest in the public at large, the 'unorganized public.' Despite its popularity, the modern public trust doctrine is notoriously vague as to its own subject matter; cases and academic commentaries normally fall back on the generality that the content of the public trust is 'flexible' in response to 'changing public needs.' [FN40] And the recent judicial expansions of public access, like the academic literature, often simply refer us back to traditional doctrines.

Hence I turn to these older doctrines for enlightenment, and in the remainder of this article I investigate the problem of inherently public property through a closer examination of older doctrines whereby the public acquired rights to use property. In large part I use cases from the nineteenth century, but will occasionally stray as far forward as the 1920s. I make no claim to historical completeness, and where appropriate I use modern law-and-economics explanations; but I hope, through an admittedly impressionistic sampling, to capture the flavor of the older views about why some properties should be exempt from the normal realm of exclusive private control.

The doctrines of 'public trust,' 'prescription,' and 'custom' have traditionally supported public claims of access to roads, waterways, and some other locations. Prescriptive doctrines in roadways, and 'trust' doctrines in waterways, I shall call the 'strong' doctrines, since they were so much more prevalent in the United States than the 'weak' doctrine of custom. Although custom was viewed as the weakest of the three doctrines, however, I argue that it provides powerful insights into the nature of 'inherently public property' as a whole, particularly such questions as who was 'the public,' and why public access to certain property was seen as particularly ***723** valuable.

As will appear, service to commerce was a central factor in defining as 'public' such properties as roads and waterways. Used in commerce, some property had qualities akin to infinite 'returns to scale.' Thus here, the commons was not tragic, but comedic, in the classical sense of a story with a happy outcome. And customary doctrines suggest that commerce might be thought a 'comedy of the commons' not only because it may infinitely expand our wealth, but also, at least in part, because it has been thought to enhance the sociability of the members of an otherwise atomized society.

This sets the stage for a return to the beach. I conclude by suggesting that in the twentieth century there may be other versions of the comedy of the commons, and other practices that share with commerce the power to enhance our sociability. We might even think that properties devoted to such noncommercial uses as recreation or speech could achieve their highest value when they are accessible to the public at large.

...

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FNp Professor of Law, Northwestern University. I have foisted earlier versions of this paper on numerous patient friends and colleagues. For their helpful comments and criticism, I particularly thank Jonathan Entin, Victor Goldberg, Mark Grady, Hendrik Hartog, Henry Hansmann, Richard Helmholz, William Marshall, Thomas Merrill, Stephen Presser, George Priest, and the indefatigable Cass Sunstein.

FN1 2 WILLIAM BLACKSTONE, COMMENTARIES superscript * 2 (property defined as 'that sole and despotic dominion . . . over the external things of the world, in total exclusion of the right of any other individual in the universe'); see also *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 435 (1982) (the right to exclude is the most valuable element of property).

FN2 2 W. BLACKSTONE, supra note 1, at superscript * 4 (no one would devise conveniences to make life more 'agreeable' unless s/he could keep them permanently); id. at superscript * 7 ('who would be at the pains of tilling [the earth] if another might . . . seize upon and enjoy the product of his industry, art, and labour?').

FN3 Holderness, A Legal Foundation for Exchange, 14 J. LEGAL STUD. 321, 321- 22, 344 (1985) (narrow and specific assignment of rights necessary for exchange).

FN4 RICHARD POSNER, ECONOMIC ANALYSIS OF LAW 28 (2d ed. 1977). Posner is speaking here only of property as an inducement to good management, but points out the importance of transferability a few paragraphs later. See id. at 28-29.

FN5 Id. at 28 n.3 (citing 2 W. BLACKSTONE, supra note 1, at superscript * 4, superscript * 7); Blackstone also praises 'that wise and orderly maxim, of assigning to every thing capable of ownership a legal and determinate owner.' 2 W. BLACKSTONE, supra note 1, at superscript * 15.

FN6 See, e.g., JEREMY BENTHAM, THE THEORY OF LEGISLATION, CIVIL CODE pt. 1, chs. 7-9 (Ogden ed. 1931). The great 18th-century economist Adam Smith also mentioned in passing that it is only where no one has anything worth more than two or three days' labor that there is no need to protect private property. ADAM SMITH, THE WEALTH OF NATIONS 669-70 (Modern Library ed. 1937). See also JOSEPH ANGELL, A TREATISE ON THE RIGHT OF PROPERTY IN TIDE WATERS AND IN THE SOIL AND SHORES THEREOF 17 (1826), where this American jurist follows Blackstone in arguing that all things capable of ownership should be assigned an owner, with those things incapable of exclusive ownership being assigned to the sovereign. For a modern statement of this idea, see Yandle, Resource Economics: A Property Rights Perspective, 5 J. ENERGY L. & POL'Y 1, 1-2 (1983) (natural progression toward individual ownership of scarce resources). For a challenge to the view that private ownership is presumptively the most efficient form of management, see Kennedy & Michelman, Are Property and Contract Efficient?, 8 HOFSTRA L. REV. 711 (1979-80).

FN7 The phrase and the classic modern statement of the position come from Hardin, The Tragedy of the Commons, 162 SCIENCE 1243 (1968), reprinted in ECONOMIC FOUNDATIONS OF PROPERTY LAW 2 (B. Ackerman ed. 1975).

FN8 Id.; see also Holderness, supra note 3, at 344 ('ordinary forms of social interaction, both within the beyond trade and commerce, could not take place if property rights were inconsistent or ill defined').

FN9 For the Roman law categories of public property, see Coquillette, Mosses from an Old Manse: Another Look at Some Historic Property Cases about the Environment, 64 CORNELL L. REV. 761, 801-03 (1979); MacGrady, The Navigability Concept in the Civil and Common Law, 3 FLA. ST. U.L. REV. 511, 518 (1975). For applications of these classifications, see Deveney, Title, Jus Publicum, and the Public Trust: An Historical Analysis, 1 SEA GRANT L.J. 13, 29-36 (1976); Wiel, Natural Communism: Air, Water, Oil, Sea, and Seashore, 47 HARV. L. REV. 425 (1934); Winett, Contemporary Water Pollution Cases and Roman Law, III TEMP. ENVTL. L. & TECH. J. 31 (1984).

FN10 This has been argued forcedfully by Molly Selvin and Harry Scheiber, whose recently published historical studies argue that 19th-century American law was replete with notions of 'public rights,' some of which were characterized as property rights. Scheiber, Public Rights and the Rule of Law in American Legal History, 72 CAL. L. REV. 217 (1984); Selvin, The Public Trust Doctrine in American Law and Economic Policy, 1789-1920, 1980 WIS. L. REV. 1403. For the 'jus publicum' (or 'publici juris') language, see Deveney, *supra* note 9, at 29-31; see also *Commonwealth v. Alger*, 61 Mass. (7 Cush.) 53, 76 (1851), discussed in Scheiber, *supra*, at 222.

FN11 See, e.g., *City of Berkeley v. Superior Court*, 26 Cal. 3d 515, 606 P.2d 362, 162 Cal. Rptr. 327, cert. denied, 449 U.S. 840 (1980); *Gion v. Santa Cruz*, 2 Cal. 3d 29, 465 P.2d 50, 84 Cal. Rptr. 162 (1970); *Borough of Neptune City v. Borough of Avon-by-the-Sea*, 61 N.J. 296, 294 A.2d 47 (1972); *State ex rel. Thornton v. Hay*, 254 Or. 584, 462 P.2d 671 (1969); *Seaway Co. v. Attorney General*, 375 S.W.2d 923 (Tex. Civ. App. 1964).

FN12 See, e.g., *Martin v. Waddell*, 41 U.S. (16 Pet.) 366, 412-14 (1842); cf. MacGrady, *supra* note 9, at 566-68 (the 'public' character of this land is a creation of the 17th and 18th centuries).

FN13 See, e.g., *Gion*, 465 P.2d 50; *City of Daytona Beach v. Tona-Rama, Inc.*, 294 So. 2d 73 (Fla. 1974); *Van Ness v. Borough of Deal*, 78 N.J. 174, 393 A.2d 571 (1978); *Thornton*, 462 P.2d 671; *Seaway Co.*, 375 S.W.2d 923.

FN14 See, e.g., *State v. Superior Court*, 29 Cal. 3d 210, 625 P.2d 239, 172 Cal. Rptr. 696 (inland waterfront), cert. denied, 454 U.S. 865; *City of Berkeley*, 606 P.2d 362; *Van Ness*, 393 A.2d 571; *Borough of Neptune City*, 294 A.2d 47; *Matthews v. Bay Head Improvement Ass'n*, 95 N.J. 306, 471 A.2d 355, cert. denied, 105 S. Ct. 93 (1984); *Just v. Marinette Country*, 56 Wis. 2d 7, 201 N.W.2d 761, 768-69 (1972) (public trust in shoreland of navigable waters). For commentary, see Deveney, *supra* note 9; Note, The Public Trust in Tidal Areas: A Sometime Submerged Traditional Doctrine, 79 YALE L. J. 762 (1970) [hereinafter cited as Note, Tidal Areas]; Note, Public Beach Access Exactions: Extending the Public Trust Doctrine to Vindicate Public Rights, 28 UCLA L. REV. 1049, 1069-86 (1981) (prefers public trust to alternate theories of public access) [hereinafter cited as Note, Beach Access].

FN15 Perhaps best known of these cases is California's *Gion*, 465 P.2d 50. Other states in which courts have recently applied the 'implied dedication' or prescriptive approach to the waterfront are Texas, in *Seaway Co.*, 375 S.W.2d 923, and--somewhat reluctantly--New York, in *Gewirtz v. City of Long Beach*, 69 Misc. 2d 763, 330 N.Y.S.2d 495 (Sup. Ct. 1972), *aff'd*, 45 A.D.2d 841, 358 N.Y.S.2d 957 (1974) (mem.). Cf. *Department of Natural Resources v. Mayor of Ocean City*, 274 Md. 1, 332 A.2d 630 (1975) (doctrine held inapplicable because no clear intent to dedicate); *State v. Beach*

Co., 271 S.C. 425, 248 S.E.2d 115 (1978) (no intent to dedicate). For commentary, see, for example, Livingston, Public Access to Virginia's Tidelands: A Framework for Analysis of Implied Dedications and Public Prescriptive Rights, 24 WM. & MARY L. REV. 669 (1983); Comment, Public or Private Ownership of Beaches: An Alternative to Implied Dedication, 18 UCLA L. REV. 795 (1971); Note, This Land Is My Land: The Doctrine of Implied Dedication and Its Application to California Beaches, 44 S. CAL. L. REV. 1092 (1971).

FN16 Courts in Florida, Hawaii, and Oregon have adopted this approach. See *City of Daytona Beach*, 294 So. 2d 73 (Fla.); *County of Hawaii v. Sotomura*, 55 Hawaii 176, 517 P.2d 57 (1973), cert. denied, 419 U.S. 872 (1974); *In re Ashford*, 50 Hawaii 314, 440 P.2d 76 (1968); *Thornton*, 462 P.2d 671 (Or.).

FN17 See, e.g., Degnan, Public Rights in Ocean Beaches: A Theory of Prescription, 24 SYRACUSE L. REV. 935, 960-62, 965 (1973) (beach particularly suited to public prescriptive rights and public use); Stevens, The Public Trust: A Sovereign's Ancient Prerogative Becomes the People's Environmental Right, 14 U.C.D. L. REV. 195, 221-23 (1980) (recreation a proper trust purpose); Note, Public Access to Beaches, 22 STAN. L. REV. 564, 580-81 (1970) (dedication appropriate for public needs, citing Gion and Thornton).

FN18 For a sampling of this literature, see The Public Trust Doctrine in Natural Resources Law and Management: A Symposium, 14 U.C.D. L. REV. 181 (1980). Unquestionably the most important article was Sax, The Public Trust Doctrine in Natural Resource Law: Effective Judicial Intervention, 68 MICH. L. REV. 471 (1970), which initiated the continuing avalanche of scholarly and judicial commentary elaborating on--or disputing--the argument that certain lands ought to be public. See Lazarus, Changing Conceptions of Property and Sovereignty in Natural Resources: Questioning the Public Trust Doctrine, 71 IOWA L. REV. 631, 643-44 nn.75-76 (1986) (listing many articles on public trust following Sax); *id.* at 644 n.77 (listing many of the approximately 100 cases in half the states concerning public trust doctrine).

FN19 See, e.g., *United Plainsmen Ass'n v. North Dakota State Water Conservation Comm'n*, 247 N.W.2d 457, 461-64 (N.D. 1976) (water subject to public trust, citing *inter alia* Sax, *supra* note 18); *Payne v. Kassab*, 11 Pa. Commw. 14, 312 A.2d 86 (1973), *aff'd*, 14 Pa. Commw. 491, 323 A.2d 407 (1974), *aff'd*, 468 Pa. 226, 361 A.2d 263 (1976) (Pennsylvania Constitution places broad range of resources in public trust); Johnson, Public Trust Protection for Stream Flows and Lake Levels, 14 U.C.D. L. REV. 233 (1980); Sax, Liberating the Public Trust Doctrine from its Historical Shackles, 14 U.C.D. L. REV. 185, 188-89 (1980) (trust doctrine prevents destabilization of public expectations and should extend to renewable resource management generally); Note, Protecting the Public Interest in Art, 91 YALE L.J. 121 (1981) (arguing that artworks should be subject to a public trust).

FN20 See, e.g., Note, Assault on the Beaches: 'Taking' Public Recreational Rights to Private Property, 60 B.U.L. REV. 933 (1980); Note, The Common Law Doctrine of Implied Dedication and Its Effect on the California Coastline Property Owner: *Gion v. City of Santa Cruz*, 4 LOY. L.A.L. REV. 438 (1971); Note, *supra* note 15.

FN21 See, e.g., Note, *supra* note 15, at 1120-25 (arguing for inverse condemnation).

FN22 *Id.* at 1096.

FN23 Roberts, *Beaches: The Efficiency of the Common Law and Other Fairy Tales*, 28 *UCLA L. REV.* 169, 177-80 (1980); Comment, *supra* note 15, at 803. On the commons problem, see the classic work by Hardin, *supra* note 7.

FN24 Roberts, *supra* note 23, at 175-80. For the argument that the common law is efficient, see Rubin, *Why Is the Common Law Efficient?*, 6 *J. LEGAL STUD.* 51 (1977); Priest, *The Common Law Process and the Selection of Efficient Rules*, 6 *J. LEGAL STUD.* 65 (1977).

FN25 There is a striking parallel between these doctrines and some justifications for noncompensation in 19th-century eminent domain cases. One well-known Pennsylvania case echoed the 'public trust' doctrine in holding that the original proprietary grant had 'reserved' a right to place roads over property, and that owners bought subject to such reservations. See *M'Clenachan v. Curwin*, 3 Yeates 362, 6 Binn. 509 (Pa. 1802). One might see such a doctrine as a serious assault on property rights, see, e.g., MORTON HORWITZ, *THE TRANSFORMATION OF AMERICAN LAW* 63-65 (1977), but in a sense it is an almost pathetic effort to preserve the illusion that nothing is being taken.

FN26 See, e.g., *Starr v. People*, 17 Colo. 458, 30 P. 64 (1892) (general public use of a lot, as opposed to a particular path, does not establish implied dedication); *State ex rel. Shorett v. Blue Ridge Club*, 22 Wash. 2d 487, 495-96, 156 P.2d 667, 671 (1945) (owner had no notice of adverse use and is 'not required to adopt a dog-in-the-manger attitude in order to protect his . . . property'). On the other hand, a governmental body may acquire property by adverse possession; this highlights the distinction between a corporately organized governmental 'public' and the unorganized public-at-large. See *infra* text accompanying notes 31-40. For recent examples of governmental adverse possession, see, for example, *Roche v. Town of Fairfield*, 186 Conn. 490, 498-500, 442 A.2d 911, 916 (1982) (distinguishing governmental adverse possession from that of unorganized public at large); see also *State ex rel. A.A.A. Invs. v. City of Columbus*, 17 Ohio St. 3d 151, 152-53, 478 N.E.2d 773, 775(1985) (citing cases).

FN27 See, e.g., *Graham v. Walker*, 78 Conn. 130, 133, 61 A. 98, 99 (1905) (customary rights to land do not apply in United States); see also 21 *MINN. L. REV.* 107 (1936) (New Hampshire is the only jurisdiction allowing public easements by custom). For a review of the status of custom in American law as of 1935, see *Gillies v. Orienta Beach Club*, 159 Misc. 675, 289 N.Y.S. 733 (Sup. Ct. 1935), *aff'd*, 248 A.D. 623, 288 N.Y.S. 136 (1936) (*per curiam*).

FN28 Blackstone recognized this exception in the very phrase that he spoke of 'that wise and orderly maxim' assigning an owner to everything capable of ownership; things not capable of ownership were designated as the property of the sovereign. 2 *W. BLACKSTONE*, *supra* note 1, at *14-15. More recently, in *Anderson & Hill, The Evolution of Property Rights: A Study of the American West*, 18 *J.L. & ECON.* 163 (1975), have traced the progress of a number of resources in the American West from a 'commons' to a system of property rights, arguing that this occurs as the value of a private property regime comes to outweigh the costs of its administration. For a similar account, tracing the increasing formality in land title registration in colonial New England, see *Konig, Community Custom and the Common Law: Social Change and the Development of Land Law in Seventeenth-Century Massachusetts*, 18 *AM. J. LEGAL HIST.* 137, 148-53 (1974);

see also Yandle, *supra* note 6, at 5 (costs of allocating property rights in natural resources may exceed losses arising from commons overuse).

FN29 See, e.g., 2 HUGO GROTIUS, *DE JURE BELLI AC PACIS* 190 (Kelsey trans. 1925) (air and oceans too plentiful and unbounded to reduce to private property). The same used to be said of running water, though the experience of the American West has shown this not to be the case, in effect proving the rule. Running waters were privatized when the gains from careful resource management outweighed the costs of an administrative system for private rights. See Anderson & Hill, *supra* note 28, at 177 (water reduced to property). To a degree even the air has become privatized, insofar as pollution rights are granted (and even bought and sold) by permit. See, e.g., Stewart, *Economics, Environment, and the Limits of Legal Control*, 9 HARV. ENVTL. L. REV. 1, 13-14 (1985) (EPA's 'bubble system' contemplates trade of property-like rights of air pollution under Clean Air Act).

FN30 Indeed, much of the case law on these matters has arisen because some owner has succeeded in staking out some allegedly 'public' area, and in excluding others from it. See, e.g., *Martin v. Waddell*, 41 U.S. 366 (1842) (rejecting private proprietary claims to submerged oyster beds); *Attorney Gen. v. Woods*, 108 Mass. 436 (1871) (suit to remove mill dam across tidal creek as impairment of public property); *Corvallis Sand & Gravel Co. v. State*, 250 Or. 319, 439 P.2d 575 (1968) (removal of sand and gravel from streambed established no private rights in public stream, so private party ejected); *Carson v. Blazer*, 2 Binn. 475 (Pa. 1810) (excavation of a shad pond did not establish property right to fishing in center of navigable river). For the meaning of 'possession' in common law doctrines, see Rose, *Possession as the Origin of Property*, 52 U. CHI. L. REV. 73 (1985); see also Epstein, *Possession as the Root of Title*, 13 GA. L. REV. 1221, 1229 (1979).

FN31 See, e.g., Stroup & Baden, *Externality, Property Rights, and the Management of Our National Forests*, 16 J.L. & ECON. 303, 306-09 (1973) (summarizing market failure rationales for governmental management of national forests); cf. Sagoff, *Economic Theory and Environmental Law*, 79 MICH. L. REV. 1393, 1402-08 (1981) (difficulty of measuring aesthetic or normative preferences; incommensurability of these diffuse preferences with normal market preferences).

FN32 See Adams, *Relation of the State to Industrial Action*, in *Two ESSAYS BY HENRY CARTER ADAMS* 57, 109-14 (Dorfman ed. 1954) (industries with increasing returns are natural monopolies, justifying either public ownership or regulation); Hadley, *Legal Theories of Price Regulation*, 1 YALE REV. 56, 60 (1892).

FN33 See, e.g., Wiel, *supra* note 9, at 429.

FN34 See Comments of James Krier, American Association of Law Schools, Annual Meeting, Washington, D.C., Session on Property (Jan. 1985) (audio tape) (private property regime is a collective good).

FN35 See *infra* text accompanying notes 84-187.

FN36 See *infra* text accompanying notes 91-105.

FN37 See *infra* text accompanying notes 116-33. For the phrase 'unorganized public,' see *Phillips v. Stamford*, 81 Conn. 408, 412, 71 A. 361, 363 (1908).

FN38 See, e.g., *Rung v. Shoneberger*, 2 Watts 23, 25-26 (Pa. 1833) (government's ownership of square is 'qualified'; city is 'trustee' for the public's 'use'). The word 'use' itself, of course, is a traditional way to designate beneficial ownership in property held in trust.

FN39 Joseph Sax, a chief modern proponent of 'public trust' doctrine, has disputed the property basis of the doctrine. See Sax, *supra* note 18, at 478-84. Other writers, however, have argued that Sax's views entail precisely such a vesting of property rights in the general public. See, e.g., Coquillette, *supra* note 9, at 811-13 (criticizing Sax and arguing that the public may have property rights that restrain legislature from alienating property except in furtherance of 'trust' purposes); Juergensmeyer & Wadley, *The Common Lands Concept: A 'Commons' Solution to a Common Environmental Problem*, 14 NAT. RESOURCES J. 361, 377-79 (1974) (arguing that Sax's position entails a property right in the public, despite his disclaimer); see also Note, *State Citizen Rights Respecting Greatwater Resource Allocation: From Rome to New Jersey*, 25 RUTGERS L. REV. 571, 697-98 (1971) (criticizing Sax's reasoning on this point). The unorganized public therefore may have a cause of action against governmental 'divestments.' See Jaffee, *The Public Trust Doctrine is Alive and Kicking in New Jersey Tidal-waters*, 14 NAT. RESOURCES J. 309, 318, 334- 35 (1974) (tidewater resources are property of N.J. citizens, beyond legislative authority to alienate); Stevens, *supra* note 17, at 210 (19th- century public trust doctrine protected public against legislature); Note, *supra*, at 696-701 (in certain situations, the citizens' interest in greatwaters is separate from, and stronger than, the state's police power). For a historical treatment of the view of certain lands as inalienable even by the legislature, see Deveney, *supra* note 9, at 51-54. For some recent cases depicting the public trust doctrine as a restraint on legislative acts, see *City of Berkeley v. Superior Court*, 26 Cal. 3d 515, 606 P.2d 362, 162 Cal. Rptr. 327, cert. denied, 449 U.S. 840 (1980); *Paepcke v. Public Bldg. Comm'n*, 46 Ill. 2d 330, 263 N.E.2d 11 (1970) (citing Sax but deciding on a property basis); *Boston Waterfront Dev. Corp. v. Commonwealth*, 378 Mass. 629, 393 N.E.2d 356 (1979); *Opinion of Justices to the Senate*, 383 Mass. 895, 424 N.E.2d 1092 (1981); *Matthews v. Bay Head Improvement Ass'n*, 95 N.J. 306, 471 A.2d 355, cert. denied, 105 S. Ct. 93 (1984).

FN40 See, e.g., Sax, *supra* note 18, at 556-57; Tarlock, *Book Review*, 47 IND. L.J. 406, 413 (1972); Wilkinson, *The Public Trust Doctrine in Public Land Law*, 14 U.C.D. L. REV. 269, 315 (1980); Note, *Beach Access*, *supra* note 14, at 1071. The case law also reflects this vague formulation. See, e.g., *Matthews*, 471 A.2d at 365 (public trust is 'flexible'). On the confusing character of public trust doctrine, particularly with respect to public lands, see Jawetz, *The Public Trust Totem in Public Land Law: Ineffective--and Undesirable--Judicial Intervention*, 10 ECOLOGY L.Q. 455, 467-68 (1982).

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January 1998

TITLE: The Tragedy of the Anticommons: Property in the Transition from Marx to Markets

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ABSTRACT:

Why are many storefronts in Moscow empty, while street kiosks in front are full of goods? In this Article, Professor Heller develops a theory of anticommons property to help explain the puzzle of empty storefronts and full kiosks. Anticommons property can be understood as the mirror image of commons property. By definition, in a commons, multiple owners are each endowed with the privilege to use a given resource, and no one has the right to exclude another. When too many owners hold such privileges of use, the resource is prone to overuse--a tragedy of the commons. Depleted fisheries and overgrazed fields are canonical examples of this familiar tragedy. In an anticommons, according to this Article, multiple owners are each endowed with the right to exclude others from a scarce resource, and no one has an effective privilege of use. When too many owners hold such rights of exclusion, the resource is prone to underuse--a tragedy of the anticommons. Empty Moscow storefronts are a canonical example of the tragedy of underuse. Anticommons property may appear whenever governments define new property rights in both post-socialist and developed market economies. Once an anticommons emerges, collecting rights into usable private property bundles can be brutal and slow. The difficulties of overcoming a tragedy of the anticommons suggest that policymakers should pay more attention to the content of property bundles, rather than focusing just on the clarity of rights.

BODY:

III. The Tragedy of the Anticommons

Property theory has long worked with categories such as private property, commons property, and state property. [FN172] However, the category of anticommons property has scarcely figured. This Part makes the anticommons a more accessible and precise term for property theory. Section III.A isolates elements of private property that contrast with anticommons property. Section III.B explains the limited appearance of the anticommons in the property literature and offers a more useful definition. Section III.C defines the "tragedy of the anticommons" and explores ways of overcoming the tragedy.

A. Private Property

1. This Land Is My Land; This Land Is Your Land.--Few social understandings are more deeply intuited and less considered in developed market economies than core private property rights: for example, the sense of "my land" and "your land." When land is sold, sellers, buyers, neighbors, and governments seem to know what constitutes ownership. In the everyday course of business, people exchange property through contract but do not create new types of property rights. [FN173] The same intuitive understanding of property in land may extend to private property more generally. People know, or think they know, [FN174] what it means to own a toaster, car, house, or corporation. People seem to know private property when they see it.

***661** Of course, even in settled market economies, property rights remain unclear on the margins, despite the web of legal rules, institutions, and informal norms. [FN175] Information costs may be one source of ambiguity in property rights. For example, it may be too costly to pin down in advance the exact boundaries of land relative to the gain from certainty. [FN176] Ambiguity also may arise because of unresolved conflicts and changing values regarding ownership, such as how far the government may restrict certain land uses without compensation. Nevertheless, most workaday activities that require property exchange take place without negotiation over the definition of the thing being exchanged or of the constitutive rights of the property bundle. If people thought deeply about the property they used, perhaps they would see that even the core meanings are historically contingent and indeterminate. [FN177] However, the everyday perspective on property masks its mysterious character.

2. What Is Private Property?--According to the classical theorists, "property" is a thing, and "property theory" defines the relationship between a person and a thing. [FN178] For example, according to the view commonly (though mistakenly) attributed to William Blackstone, the right of property is "that sole and despotic dominion which one man claims and exercises over the external things of the world, in total exclusion of the right of any other individual in the universe." [FN179] Thomas Grey explains the power that the classical metaphor holds by situating it in a historical context:

To the rising bourgeoisie, property conceived as a web of relations among persons meant the system of lord, vassal, and serf from which they were struggling to free themselves. On the other hand, property conceived as the control of a piece of the material world by a single individual meant freedom and equality of status. [FN180] The classical metaphor of property as thing- ownership still exercises a grip on the popular imagination. [FN181]

***662** However, during the twentieth century, property theorists have fundamentally re-imagined property as a bundle of rights. [FN182] Contemporary property theorists focus on the relationships owners establish with each other regarding use of an object. According to Wesley Hohfeld, property "consists of a complex aggregate of rights (or claims), privileges, powers, and immunities." [FN183] At this level of generality, the bundle-of-rights metaphor can describe any type of property relationship, including private, commons, and anticommons property. The distinction between private property and other property types depends centrally on three elements:

(a) The Possibility of Full Ownership.--Private property requires that one owner have full decisionmaking authority over an object, subject to some common law and regulatory limits. More precisely, Frank Michelman defines private in the following way: "The rules must allow that at least some objects of utility or desire can be fully owned by just one person. To be 'full owner' of something is to have complete and exclusive rights and privileges over it" [FN184] Similarly, Jeremy Waldron defines private property to be a system in which "a rule is laid down that, in the case of each object, the individual person whose name is attached to that object is to determine how the object shall be used and by whom. His decision is to be upheld by the society as final." [FN185]

(b) Rights and Bundles.--The bundle of rights represents all of the infinite number of potential relations and non-relations that people may have with each other over any given resource. [FN186] In any particular ***663** society, however, some subset of rights is likely to be considered essential, such that, if these rights are pulled from the bundle, we will no longer consider a person to be an owner. What property rights make up the core of the bundle of rights? A.M. Honore proposed a list of eleven "standard incidents" that he claims make up private property, including the rights to exclusive possession, personal use, and alienation. [FN187] Honore's list is now commonly accepted by property theorists as a starting point for describing the core

bundle of private property rights in Western market economies, [FN188] although some theorists challenge the inclusion of one incident or another. [FN189] Further, the limits of these individual incidents vary from country to country. [FN190] For example, in the United States and England, the maximum bundle of ownership rights has coalesced in the "fee simple," which incorporates nuanced restrictions on each of Honore's eleven incidents. [FN191] Any individual incident ***664** may be absent from the list in a given country or as to a given owner. [FN192] Generally, though, if a person controls all or most of these incidents with respect to a certain thing, he or she is said to "own" it. [FN193] In looking at the range of rights on Honore's list and the range of legal regimes in the world, Becker notes that "there are a wide variety of sets of rights which, when they are held by someone, can justify the claim that that person owns something." [FN194]

(c) Restrictions on Extreme Decomposition.--Along with the possibility of full ownership and a core bundle of rights in each object, a third essential characteristic of a private property regime is that it imposes some restrictions on "decomposition of full ownership into . . . rights without their congruent privileges." [FN195] Thus, one private property owner is initially endowed with a core bundle of rights in one object and is at least nominally free to use his or her object without permission from others. [FN196] Following this initial endowment, the owner may break up the bundle of rights, subject to the restriction that he or she may not "decompose" the bundle in ways that overly impair the object's marketability. [FN197] In the American law of property, numerous restraints limit an individual's capacity to break up property bundles too much. [FN198] The effect of these rules against decomposition is that property ***665** is generally kept available for productive use, in an alienable form, and with a clear hierarchy of decisionmaking authority among those who have an interest in the object.

3. Privileges of Inclusion/Rights of Exclusion.--A useful way to understand marketability of "decomposed" bundles is to examine whether multiple incidents function as privileges of inclusion or rights of exclusion. [FN199] Multiple privileges of inclusion are non-exclusive. Owners of such privileges may use an object without permission from, or coordination with, other such owners. For example, in a common field or lake, multiple owners may use the property based on their ownership of some or all of the incidents in Honore's list, subject to the privileges of inclusion of other owners. American property law generally allows an owner to decompose her bundle by granting multiple privileges of inclusion in an object, such as a tenancy in common or joint tenancy. [FN200] However, co-owners always have the right to partition their undivided common property, with the result that each owner holds a core private property bundle in part of the original commons. [FN201]

***666** By contrast, multiple owners of rights of exclusion in an object each have a veto on others' use. [FN202] Such owners may prevent others from using the object, based on ownership of some or all of the incidents in Honore's list and subject to the rights of exclusion held by other owners. [FN203] An owner can decompose her bundle by granting multiple rights of exclusion in an object: for example, by creating restrictive covenants enforceable by each owner in a residential land subdivision. [FN204] Again, however, American law provides mechanisms that over time usually operate to restore a core private property bundle to a single owner. [FN205] Indeed, there are relatively few cases in the American law of property in which multiple owners of privileges of inclusion or rights of exclusion in an object cannot escape from each other over time. [FN206]

To summarize, four elements of a private property regime are useful for exploring anticommons property. First, private property can be defined in terms of a core bundle of rights chosen from the infinite relations that may exist among people with respect to a scarce resource. Second, ownership of private property includes the possibility that an ***667** individual can control all or most of the core bundle, such that the owner's decision on inclusion or exclusion will be treated

as relatively final by society. Third, owners may break up the core bundle, subject to constraints on decomposition that keep objects available for productive use, in an alienable form, and with a clear hierarchy of decisionmaking authority among owners. Fourth, owners of private property may not break up the core bundle by granting too many privileges of inclusion or rights of exclusion in an object for too long a time.

B. Anticommons Property

1. Previous Definitions.--Anticommons property has received scant attention in the property literature. In his 1982 article challenging the presumptive efficiency of private property, Frank Michelman introduces the equivalent of an anticommons through his speculative definition of a "regulatory regime." [FN207] He defines a "regulatory regime" to be a type of property "in which everyone always has rights respecting the objects in the regime, and no one, consequently, is ever privileged to use any of them except as particularly authorized by the others." [FN208] Michelman's understanding of the anticommons is derived from a sense of abstract legal symmetry. If a regime exists in which all are privileged to use whatever objects they wish and in which no one holds exclusionary rights (that is, a commons), then, as a matter of logic, an anticommons also could exist where no one is privileged to use objects and everyone has the right to exclude. [FN209]

However, Michelman's definition of an anticommons has virtually no counterpart in real-world property relations. As a result, property theorists have not developed the concept. In contrast with the vast number of pages that have been devoted to analysis of private property and commons property regimes, the scholarly literature makes only two brief mentions of anticommons property following Michelman's introduction of the term. Robert Ellickson omits the anticommons from his table of the types of land regimes but mentions it in a footnote as a "land regime in which each member of a public owns a right to exclude, and consequently for which no one owns a privilege of entry and use." [FN210] He imagines one hypothetical example to be "a wilderness preserve that 'any person' has standing to enforce." [FN211] Jesse Dukeminier and James Krier define an anticommons as property "to which everybody has the right to exclude everybody else, and nobody has the right *668 to include anybody." [FN212] Using this definition, they pose the existence of anticommons property as a question for classroom discussion; [FN213] however, in my experience, students are unable to come up with real-world examples.

At this level of generality, the anticommons is more of a "thought experiment" than a useful category for property theory or policy analysis. In speculating about possible real-world anticommons property, property theorists have come up with few candidates, in part because they have sought to imagine property that is best used in an anticommons state. Examples include Ellickson's hypothetical wilderness preserve or perhaps a hypothetical nuclear- waste dump. [FN214] Holding such property in anticommons form would prevent anyone from being able to enter, even if a supermajority of the community were to decide that entering was desirable. [FN215] Each individual in the society would have standing to exclude every other individual. Because no one may enter without unanimous consent from all holders of exclusion rights, and because such consent would be nearly impossible to achieve, the resource would never be used. Converting a resource to anticommons form would ensure its non- use, which may be consistent with the highest social value of the hypothetical wilderness preserve or nuclear waste dump. [FN216]

2. A More Useful Definition.--This Article defines anticommons property as a property regime in which multiple owners hold effective rights of exclusion in a scarce resource. This definition departs from previous definitions along four dimensions: the universality of rights of exclusion, the implication of non-use as optimal, the formality of rights, and the scale of anticommons property.

First, because Michelman and others define an anticommons to include only situations in which everyone has a right to exclude, they have missed the existence of real-world anticommons property, in which a limited group of owners have rights of exclusion. In Michelman's definition, ***669** a threshold requirement of "near simultaneous unanimous consent" [FN217] ensures that anticommons property will not be used by anyone. However, the examples presented in Part II demonstrate that non-use can occur even when a few actors have rights of exclusion in a resource that each wants to use.

Second, although perpetual non-use of property may be optimal in a few situations, there are more situations in which non-use exists but is not socially desirable. Michelman focuses on demonstrating that, in theory, alternative property regimes may be as efficient as a private property regime. However, the fact that an anticommons may be an efficient regime for certain types of property does not preclude the possibility that an anticommons may exist even when it is inefficient. [FN218] For the resources discussed in this Article, and indeed for most resources that people care about, some level of use is preferable to non-use, and an anticommons regime is a threat to, rather than the epitome of, optimal use.

Third, multiple rights of exclusion need not be formally granted through the legal system for anticommons property to emerge. For example, in the kiosk case in which state authority is quite weak, mafia groups hold informal rights of exclusion, which would-be kiosk owners must assemble to secure their space. [FN219] By contrast, Michelman focuses on what the "legal order" allows or prohibits. [FN220]

Finally, anticommons property may occur at the level of a particular use of a scarce resource, rather than at the level of an entire property regime. For example, in a *komunalka*, an individual room may be held as private property, while the whole apartment is owned in anticommons form. It is sufficient to note that anticommons property in an object may appear at an efficient scale of use, without requiring that all possible uses of the object be characterized by anticommons ownership.

When these four aspects of the previous definitions are modified, the idea of anticommons property begins to move from a peripheral to an important role for property theory. The term helps identify real-world puzzles that are otherwise unexplained and suggests the importance of focusing on how rights are bundled. Understanding how anticommons property operates may in turn inform practical policymaking.

***670** 3. Private Property and Anticommons Property.--The difference between private property and anticommons property as defined by this Article can be expressed in terms of the bundle-of-rights metaphor. In a legal anticommons, rights, rather than bundles, are the locus of property endowments. An object is held as anticommons property if one owner holds one of Honore's core rights in an object, and a second owner holds the same or another core right in the object, and so on, with no hierarchy among these owners' rights or clear rules for conflict resolution. Many of the core rights can function as rights of exclusion. For example, the owner of a right of possession may be able to prevent the owner of the capital value from realizing the value of the asset, and vice versa. Unlike owners in a private property regime, owners in an anticommons regime must reach some agreement among themselves for the object to be used (except perhaps for some relatively low-value uses such as day-to-day occupation subject to eviction by other owners [FN221]).

This distinction between private and anticommons property can also be expressed graphically (Figure 5). Private property usually breaks up the material world "vertically," with each owner controlling a core bundle of rights in a single object, subject to allowable forms of decomposition,

[FN222] up to the skies and down to the depths. [FN223] By contrast, anticommons property creates "horizontal" relations among competing owners of overlapping rights in an object. [FN224]

Private property owner A may decide to divide her core rights in object 1, perhaps by leasing out a portion or mortgaging her object. The effect of this subsequent division by a private owner, however, differs from an initial endowment as anticommons property. When anticommons owners are thrown together, there is no hierarchical decisionmaking or coordinating relationship among them. By contrast, in market legal systems, even if owner A breaks up her core private property rights in object 1, someone remains an identifiable "owner" who exercises control over the other rights-holders. As discussed above, private property regimes have evolved to include rules against excessive decomposition that make it difficult for an owner to re-create her property permanently in anticommons form. [FN226]

The graphical image of the anticommons in Figure 5 can also be used to illustrate the distinction introduced in Part II between a legal anticommons and a spatial anticommons. [FN227] In a legal anticommons, the horizontal lines demarcate core rights of exclusion held by different owners. The Moscow storefront is an example of such an anticommons because the core bundle of rights--rights of ownership, leasing, use, and so on--were initially given to different owners. In a spatial anticommons, by contrast, the horizontal lines demarcate the physical subdivisions of an object. Each anticommons owner receives a core bundle of rights, but in too little space for the most efficient use in the given time and place. [FN228] For example, in a *komunalka*, each owner receives a ***672** core bundle of rights in a room, while the preferred use appears to be as a single-family apartment.

4. Commons Property and Anticommons Property.--Anticommons property can be further defined in terms of its relationship to commons property. In discussing commons property, theorists usually consider multiple privileges of use as its defining feature. [FN229] However, C.B. Macpherson defines a commons as a regime in which owners hold rights not to be excluded. [FN230] This alternative definition captures the close link between anticommons and commons property. In both property regimes, there is no hierarchical relationship among owners such that society recognizes as final the decision of any single owner regarding the object.

Theorists have usually used commons property to describe a property regime that is not private property. [FN231] For example, Michelman describes a commons as "a scheme of universally distributed, all-encompassing privilege . . . that is opposite to [private property]." [FN232] More generally, as Yoram Barzel notes, the standard economic analysis of property has "tended to classify ownership status into the categories all and none, the latter being termed 'common property'--property that has no restrictions put on its use." [FN233] Thus, property theory traditionally ***673** dichotomizes commons (non-private) property and private property. [FN234]

This dichotomy is too limited to capture the diversity of real-world property relations. Part II of this Article has shown that the anticommons idea helps to explain the behavior of property across the gradient of property in transition; Part IV will suggest the usefulness of the anticommons construct in addressing puzzles in developed market economies as well. More generally, property relations are better characterized as a triumvirate of commons, private, and anticommons. [FN235]

This Article distinguishes anticommons property from private and commons property along four dimensions. First, anticommons property is a property regime in which multiple owners hold effective rights of exclusion to a scarce resource. Second, ownership of anticommons property

includes the ability by each owner to prevent other owners from obtaining a core bundle of rights in an object. Third, keeping most objects of value in anticommons ownership means that the objects may not be readily alienable, may not be available for productive use, and may not be subject to a clear hierarchy of decisionmaking authority among owners. Fourth, non-private property may be analyzed either as anticommons property if rights of exclusion dominate use, or as commons property if privileges of inclusion dominate.

C. The Tragedy of the Anticommons

1. The Anticommons Is Not Necessarily Tragic.--Why should it matter if owners hold rights of exclusion, rather than core bundles of rights in objects? By itself, the appearance of anticommons property is not necessarily a problem for the efficient use of resources. First, in a world without transaction costs, owners should rearrange initial endowments through ex post bargaining. [FN236] Such bargains would put resources to their highest-valued use, perhaps by assembling anticommons rights into private property. [FN237] Of course, we do not live in a *674 transaction-costless world, as Ronald Coase recognized. [FN238] If people hold multiple rights to exclude each other from a resource, they must incur the transaction costs of finding out with whom to negotiate. Despite the presence of transaction costs, people will be able in many cases to negotiate with each other to overcome an anticommons and put the property to more efficient use (as in some of the [previous] examples [omitted]). On the other hand, even if the number of parties and transaction costs are low, the resource still may not be efficiently used because of bargaining failures generated by holdouts, as sometimes seems to happen with Moscow storefronts. [FN239]

A second reason that the appearance of anticommons property may not matter for efficient use can be understood by analogy to commons property. Elinor Ostrom has shown that people may be able to manage non-private property efficiently by developing and enforcing stable systems of informal norms. [FN240] Efficient, informal management of property in anticommons form could develop over time and could promote certain communitarian values--for example, cooperation among multiple dwellers in a *komunalka*--that may be lost in a private property regime. [FN241] For some anticommons resources, such as street space for kiosks in Moscow, informal norms seem to have developed that allow some use, albeit at a level of efficiency below that of the retail sector in a well-functioning market economy.

Third, some resources may be most efficiently held as anticommons. This assertion corresponds to the idea advanced by Carol Rose that roads and waterways sometimes may be more efficiently held in commons than in private property form. [FN242] Using my definition of an anticommons, one could imagine familiar property rights arrangements, such as a scheme of restrictive covenants in a residential subdivision, to be a form of anticommons property. Each homeowner in such a scheme holds her unit as private property and holds a veto right, through the restrictive covenant, to prevent changes at the community level. To the extent that creating such a scheme increases property values more than it imposes negative externalities, the developer's decision to convert raw land to anticommons form can be an efficiency-enhancing move. [FN243] In the transition economy context, however, anticommons property was not created for efficiency-maximizing motives, but rather was the unintentional result of decisionmaking by governments acting under political and economic constraints.

Finally, property theorists have shown that the efficiency of a property regime cannot be derived ex ante from a limited set of axioms, such as the assumption of rational, self-interested individuals. [FN244] In the typical commons, with multiple privileges of use, one worries about overuse by rational actors. [FN245] But one can imagine underuse of a commons despite multiple privileges of use. For example, if a common pond had a rule that any community

member could appropriate fish until the moment of consumption, people might prefer to wait on shore and poach others' catches rather than invest in boats and bait. Whether underfishing or overfishing happens on "Poach Pond" will depend on the gains from fishing and the costs of netting the catch and fending off poachers. [FN246]

Similarly, one can imagine overuse in an anticommons. For example, assume California has a property regime such that any community member-- environmental group, neighbor, or local government agency--could block development of a coastal plot. Nevertheless, the California coast might still be overbuilt relative to an efficient level (assuming neighborhood and environmental externalities are internalized), if exercising a right of exclusion is sufficiently costly. Each community member may prefer to wait for the others to block the development. Thus one can imagine that "free riding" coastal property owners and government agencies might fail to block overbuilding. [FN247] Whether under- or overbuilding happens in the "Free Ride Coast" anticommons cannot be determined abstractly. It depends on the gains from development and the external costs imposed, including the costs of exercising rights to exclude (Figure 6).

	OVERUSE	UNDERUSE
COMMONS	1. Demsetz's Forest	2. Poach Pond
ANTICOMMONS	3. Free Ride Coast	4. Moscow Storefronts

Figure 6. Resource Use in Commons and Anticommons Property

The real-world effect of multiple rights of exclusion or privileges of inclusion in an object is not a theoretical absolute, but rather an empirical matter. Boxes 2 and 3 are theoretically possible (as is optimal use per Ostrom's and Rose's observations). Practical examples, however, seem to fall mostly in Boxes 1 and 4, such as in the Labrador forest discussed by Demsetz, [FN248] and in the Moscow storefronts discussed by this Article. Expectations about overuse or underuse of property, and our policy responses, must be grounded in experience and observation.

2. Commons and Anticommons Tragedy.--Although the commons and the anticommons are not necessarily tragic, they often will be in a world of positive transaction costs, strategic behavior, and imperfect information. To the extent one believes that a "pessimistic view of human ***677** capacity for trustful cooperation" [FN249] is a good predictor of behavior, the tragic cases may be dominant. On the other hand, to the extent one has a more optimistic understanding of human nature, one might expect that people will find efficient management strategies both for commons and for anticommons resources. [FN250] This section briefly defines the parallel tragedies of wasted resources that may occur in a commons and in an anticommons.

A tragedy of the commons can occur when too many individuals have privileges of use in a scarce resource. The tragedy is that rational individuals, acting separately, may collectively overconsume scarce resources. Each individual finds that she benefits by consumption, even though she imposes larger costs on the community. Using my definition, the anticommons is prone to the inverse tragedy. A tragedy of the anticommons can occur when too many individuals have rights of exclusion in a scarce resource. The tragedy is that rational individuals, acting separately, may collectively waste the resource by underconsuming it compared with a social optimum.

When an owner of a common pond catches a fish, she gains because she can eat or trade the fish. An owner benefits from keeping a storefront empty, in contrast, by excluding others because exclusion preserves the value of the right, perhaps for later trade to property bundlers, or perhaps for use in rent-seeking. [FN251] The right of exclusion is valuable precisely because others want to use the resource and will pay something to collect the right. Keeping a Moscow storefront empty is relatively inexpensive because an owner need only drive by now and then to peer in the windows. Monitoring costs increase when the store is occupied and each owner must ensure that the use does not exceed the permission granted. [FN252] If a property bundler can use the store without acquiring some owner's rights, those rights no longer function as rights of exclusion and may decline in value.

3. Overcoming Anticommons Tragedy.--There are several ways to overcome anticommons tragedy while still keeping property in anticommons form. For example, as discussed above, close-knit groups may over time develop informal norms that help them manage the resource *678 relatively efficiently. However, informal norms are not a likely solution in many cases in which an anticommons develops, such as when one-shot deals convert *komunalkas* into individual apartments, or when anticommons owners are not close-knit, as in the Moscow storefronts.

In the commons case, property theorists have proposed that societies may overcome tragedy by evolving toward private property relations. For example, Demsetz suggests that communities move to private property in a resource when technological or population pressures increase the differential between individual gain and social cost. [FN253] When the effects of resource use are fairly localized, private property better aligns each owner's interest with the efficient level of use because each owner faces the full costs of overconsumption. [FN254] In other words, the private property owner internalizes externalities for which the commons owner need not account. [FN255] The theoretical arguments on the commons carry over, by analogy, to the problem of overcoming an anticommons. In the anticommons case, moving to a private property regime may better align each owner's interest with efficient use, because a private property owner faces the full cost of underconsumption.

The puzzling question, then, is by what mechanism resources shift from commons or anticommons form into private property. This question is underdeveloped in the literature on the economics of property rights, except for a vague evolutionary story. [FN256] In time, much anticommons property, including the examples discussed in Part II, will probably be converted into private property, although the process may be brutal and uneven. Markets will rapidly convert assets with the largest differential between anticommons and private property values, the lowest transaction costs of conversion, and negligible contingent value for rent-seeking. The mechanisms for conversion of other anticommons property are less clear. [FN257]

*679 Part II of this Article proposed some paths out of the anticommons toward private property, based on either market or regulatory mechanisms. But these paths are fraught with difficulty: markets may fail because of transaction costs and strategic bargaining, and governments may fail because of the cost and administrative complexity of compensation and the fear of demoralizing potential investors by reforming property rights without compensation. Although some anticommons resources may make the transition to private property, many other valuable resources may remain stuck on a poorly-performing path. What is to be done? [FN258]

...

V. Conclusion

Anticommons property is prone to the tragedy of underuse. Once anticommons property appears, neither markets nor subsequent regulation will reliably convert it into useful private property, even if the *688 property rights are "clearly defined" and contracts are subject to the "rule of law." Transaction costs, holdouts, and rent-seeking may prevent economically justified conversion from taking place. Over time, markets may develop formal or informal mechanisms that allow rights-bundling entrepreneurs to assemble private or quasi-private property. More directly, governments can tinker with the rights regime through policy reforms to change individual incentives in favor of bundling, or they can risk the instability that comes from revoking excessive rights of exclusion. However, this Article has shown that once anticommons property has emerged, both markets and governments may fail to re-bundle it into usable private property.

Governments must take care to avoid creating anticommons property accidentally when they define new property rights. One path to well-functioning private property is to convey a core bundle of rights to a single owner, rather than rights of exclusion to multiple owners. Subsequently, owners of standard bundles may fragment their ownership. Well-functioning market legal systems allow this conversion, but have numerous safeguard mechanisms to ensure that rights can be rebundled and the property can be put to use within a reasonable period. When these mechanisms fail, anticommons property can become entrenched, even in developed market economies.

Property theory and transition practice have given insufficient weight to the role that the bundling of rights plays in avoiding anticommons tragedy. Both theorists and practitioners assume that the key to creating private property is to define rights clearly, enforce contracts predictably, and let the market sort out entitlements. The experience of anticommons property in transition suggests that the content of property bundles, and not just the clarity of property rights, matters more than we have realized. We pay a high price when we inadvertently create anticommons property.

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FN172. These shorthand labels parallel the conventional usage. See Duncan Kennedy & Frank Michelman, *Are Property and Contract Efficient?*, 8 Hofstra L. Rev. 711, 715-16 (1980); Michelman, *supra* note 9, at 5-6; Waldron, *supra* note 122, at 326-33.

FN173. Property rights differ from contract rights in that property typically does not represent or derive from formal private agreement among individuals defining the content of the relationships. The world of contract assumes a pre-existing process for defining entitlements and distributing those rights initially among stakeholders, both individual and state. Once rights are defined and distributed, contract represents the ordinary process of voluntary exchange. Ordinary exchange through contract can give rise over time to new property rights, as when merchants develop business norms, which in turn are codified as property rights. See generally Ellickson, *supra* note 19, at 52-64 (discussing the development of extra-legal norms of dispute resolution); Lisa Bernstein, *Merchant Law in a Merchant Court: Rethinking the Code's Search for Immanent Business Norms*, 144 U. Pa. L. Rev. 1765, 1765-1821 (1996) (drawing on the National Grain and Feed Association's contract dispute-resolution mechanism to illustrate problems in the externally imposed Uniform Commercial Code system); Eric A. Posner, *The Regulation*

of Groups: The Influence of Legal and Nonlegal Sanctions on Collective Action, 63 U. Chi. L. Rev. 133, 133-34 (1996) (collecting the classic legal-realist and law-and-society sources emphasizing the importance of non-legal mechanisms in regulating behavior). Similarly, property rights can be created through legislative schemes, not just through norm codification: for example, through tradable pollution rights or auctions of bands of the radio spectrum.

FN174. That people think they know what property is may be enough. As the utilitarian philosopher Jeremy Bentham pointed out long ago: "Property is nothing but a basis of expectation.... There is no image, no painting, no visible trait, which can express the relation that constitutes property. It is not material, it is metaphysical; it is a mere conception of the mind." Jeremy Bentham, *Theory of Legislation* 111-12 (Richard Hildreth trans., Fred B. Rothman & Co. 4th ed. 1987) (1931).

FN175. As Stephen Munzer notes: "[T]he idea of property is indeterminate at the margin. No litmus test can separate rights of property from, say, those of contract in all cases." Stephen R. Munzer, *A Theory of Property* 24 (1990).

FN176. Cf. Yoram Barzel, *Economic Analysis of Property Rights* 3 (1989) (explaining that high transaction costs prevent the realization of the full value of an asset).

FN177. See Mark Kelman, *A Guide to Critical Legal Studies* 259-60, 270-71 (1987); Roberto Mangabeira Unger, *The Critical Legal Studies Movement* 6-7 (1986).

FN178. See 2 William Blackstone, *Commentaries* *2.

FN179. *Id.* In fairness to Blackstone, he "would have admitted that his sentence ... was hyperbolic. His treatise explicitly discussed, for example, a variety of legal privileges to enter private land without the owner's consent." Ellickson, *supra* note 155, at 1362 n.237; see also Dukeminier & Krier, *supra* note 103, at 99 (same). Ellickson also points out that the concept of property as thing-ownership is not original with Blackstone but rather comes from the older civil law tradition, a tradition that continues today in much of the world. See Ellickson, *supra* note 155, at 1377 n.312.

FN180. Grey, *supra* note 4, at 73-74.

FN181. See Bruce A. Ackerman, *Private Property and the Constitution* 98-100 (1977) (discussing the prevalent layperson's view of property as thing-ownership); Munzer, *supra* note 175, at 16 (contrasting the "popular conception" of property as things with the "legal conception" of property as relations).

FN182. See Dukeminier & Krier, *supra* note 103, at 86 ("For lawyers, if not lay people, property is an abstraction. It refers not to things, material or otherwise, but to rights or relationships among people with respect to things."); Munzer, *supra* note 175, at 23; Grey, *supra* note 4, at 69 (distinguishing between the metaphors of property as thing-ownership and bundle of rights); J.E. Penner, *The "Bundle of Rights" Picture of Property*, 43 UCLA L. Rev. 711, 713-14, 713 n.8 (1996).

FN183. Hohfeld, *supra* note 9, at 96; see also A.M. Honore, *Ownership*, in *Oxford Essays in Jurisprudence* 107, 107-28 (A.G. Guest ed., 1961) (specifying the standard bundle of rights that constitutes ownership).

FN184. Michelman, *supra* note 9, at 5. Michelman, in turn, draws on the work of Hohfeld. See Hohfeld, *supra* note 9, at 96.

FN185. Waldron, *supra* note 122, at 327 (emphasis omitted). These standard definitions of private property are assumed in discussions of the transition from socialist to market economies. For example, Frydman and Rapaczynski define private property as follows: [A] social and economic order defining a new set of expectations that individuals may have with respect to their ability to dispose of the assets recognized as 'theirs' by the legal system.... The concept of a private property regime is designed to reflect the delicate balance, struck by each economically successful society, between private action and state administration.

Frydman & Rapaczynski, *supra* note 3, at 169-70; see also World Development Report, *supra* note 2, at 48-49 ("Property rights are at the heart of the incentive structure of market economies. They determine who bears risk and who gains or loses from transactions.").

FN186. For example, in conversation with the author, Brian Simpson notes that full ownership of a sweater may include not just the standard rights to sell or lend it to another, but also the non-standard rights to eat or to burn the sweater.

FN187. See Honore, *supra* note 183, at 112-28. Honore lists these incidents as:

- (1) the right to exclusive possession;
- (2) the right to personal use and enjoyment;
- (3) the right to manage use by others;
- (4) the right to the income from use by others;
- (5) the right to the capital value, including alienation, consumption, waste, or destruction;
- (6) the right to security (that is, immunity from expropriation);
- (7) the power of transmissibility by gift, devise, or descent
- (8) the lack of any term on these rights;
- (9) the duty to refrain from using the object in ways that harm others;
- (10) the liability to execution for repayment of debts; and
- (11) residual rights on the reversion of lapsed ownership rights held by others.

See *id.*; see also Jeremy Waldron, *The Right To Private Property* 49 (1988) (summarizing Honore's list of incidents); Ellickson, *supra* note 155, at 1362-63 (attributing some of these private entitlements to a "Blackstonian" bundle).

FN188. See, e.g., Lawrence C. Becker, *Property Rights: Philosophic Foundations* 7-23 (1977) (integrating Hohfeld and Honore); Munzer, *supra* note 175, at 27 n.14 ("The Hohfeld-Honore analysis is common among philosophers."); Andrew Reeve, *Property* 14-21 (1986).

FN189. Waldron, for example, would leave the prohibition on harmful use out of a list of incidents of private property and regard it instead as a more general restriction on action. See Waldron, *supra* note 187, at 49. Grey would go further and claim that the notion of property has fragmented too much to allow for a general theory of property along the lines suggested by Hohfeld and Honore. See Grey, *supra* note 4, at 74; see also Munzer, *supra* note 175, at 31- 32 (discussing Grey).

FN190. For example, the classic trilogy of rights of possession, use, and disposition of property are established by the civil law of industrial countries. See Richard A. Epstein, *Private Property and the Public Domain: The Case of Antitrust*, 24 *Nomos* 48, 57 (1982).

FN191. See generally A.W.B. Simpson, *A History of the Land Law* (2d ed. 1986) (detailing origins of fee simple in land in England). Ellickson captures Blackstone's image of property as thing-ownership and transforms it to modern bundle-of-rights terms. See Ellickson, *supra* note 155, at 1362-63. He creates a "'Blackstonian' Bundle of Land Entitlements" that includes:

- ownership by a single individual ("that sole and despotic dominion which one man claims")
- in perpetuity
- of a territory demarcated horizontally by boundaries drawn upon the land, and extending from there vertically downward to the depths of the earth and upward to the heavens
- with absolute rights to exclude would-be entrants
- with absolute privileges to use and abuse the land, and
- with absolute powers to transfer the whole (or any part carved out by use, space, or time) by sale, gift, devise, descent, or otherwise.

Id. Ellickson intends the graphic image of the Blackstonian bundle to describe a more general or "ideal typical" form of private property that shares key characteristics across many legal systems. *Id.*

FN192. For example, in American law, a person contemplating bankruptcy may sell property at its "reasonably equivalent value" but does not have the right to make a gift of the same property. 11 U.S.C. §548(a) (1994); see also *Moore v. Regents of the Univ. of Cal.*, 793 P.2d 479, 510 & n.9 (Cal. 1990) (Mosk, J., dissenting) (citing bankruptcy law to support the proposition that "some types of personal property may be sold but not given away"). Nevertheless, we consider a near-bankrupt person to be otherwise a legal owner of his or her property. As to other resources, owners may have the right to give away their property but not to sell it. One example would be wild fish or game caught or killed pursuant to a license. See Cal. Fish & Game Code §§ 3039, 7121 (West 1984); see also *Moore*, 793 P.2d at 510 & n.10 (Mosk, J., dissenting) (arguing that one can own one's internal organs as property even though one may not have the standard bundle of rights). See generally Dukeminier & Krier, *supra* note 103, at 86-87 (discussing market inalienability of some types of property); Susan Rose-Ackerman, *Inalienability and the Theory of Property Rights*, 85 Colum. L. Rev. 931, 937-61 (1985) (noting range of justifications for restrictions on transferability).

FN193. See Munzer, *supra* note 175, at 22 ("These incidents are jointly sufficient, though not individually necessary, for ownership."). Further, each of these incidents can be defined in various ways different enough from one another to alter the emphasis and practical consequences of the incident. See Becker, *supra* note 188, at 19-20.

FN194. Becker, *supra* note 188, at 22.

FN195. Michelman, *supra* note 9, at 9; see also *id.* at 8-21 (defining "composition" and providing examples).

FN196. Each owner must, however, comply with the normal regulatory constraints in a market economy. Honore's bundle does not include the right to be free from such regulation. See Munzer, *supra* note 175, at 24.

FN197. See Ellickson, *supra* note 155, at 1374-75; Michelman, *supra* note 9, at 9.

FN198. See Ellickson, *supra* note 155, at 1374 ("To deter destructive decompositions of property interests, the Anglo-American legal system has developed a complex set of

paternalistic rules.... Rules that govern the interpretation and termination of sub-fee interests also tilt against creation and continuation of interests 'repugnant to the fee.'" (footnotes omitted)).

Under United States property law, one cannot create new types of estates in land. A conveyance that purports to limit inheritance to a particular class of heirs creates a fee simple, inheritable by heirs generally. See *Johnson v. Whiton*, 34 N.E. 542, 542 (Mass. 1893) (Holmes, J.) ("A man cannot create a new kind of inheritance."); Dukeminier & Krier, *supra* note 103, at 211 (discussing *Johnson*). The infamous Rule Against Perpetuities also functions to prevent the breakup of the standard bundle of property rights over time. See Cribbet & Johnson, *supra* note 11, at 82-85. Contingent grants of property that act as restraints on marriage may be disallowed. See Restatement (Second) of Property: Donative Transfers §6.1 (1983). In the area of covenants, the doctrine of changed circumstances and rules on re-recordation prevent stale restrictions from limiting current use of land. Real property taxes and escheat for non-payment can also function to prevent people from breaking up property into too small units for too long. See *infra* pp. 682-83.

FN199. Many of Honore's standard incidents may function as privileges of inclusion or rights of exclusion under certain circumstances. An incident functions as a privilege of inclusion if each owner must allow other owners to exercise their incidents in the object. An incident functions as a right of exclusion if each owner can block use by other owners. Privileges of inclusion and rights of exclusion need not be based on formal legal rights but may also reflect informal control rights, such as the ability to delay regulatory approvals. See *supra* note 91 (noting Shleifer's distinction between legal and physical control rights).

FN200. See Cribbet & Johnson, *supra* note 11, at 106-14.

FN201. See *id.* at 114. The right to partition joint tenancy and tenancy in common has been available at common law since 1539. See 31 Hen. 8, ch. 1 (1539) (Eng.), cited in Cornelius J. Moynihan, *Introduction to the Law of Real Property* 213 (2d ed. 1988); see also 7 Richard R. Powell, *Powell on Real Property* P 607, at 50-47 to 50-61 (Patrick J. Rohan ed., 1997) (detailing modern availability of right of partition by sale or in kind). As an aside, excess partition in kind of land can create an anticommons as parcels become uneconomically small after successive partitions. See *infra* section IV.D (discussing analogous fractionation in Native American allotted lands). I believe the modern trend toward partition by sale is explained in part by the desire to avoid creating anticommons property in land.

FN202. Rights of exclusion are as fundamental as privileges of use. In the American law of property, for example, the right to exclude others has long been recognized as "one of the most essential sticks in the bundle of rights that are commonly characterized as property." *Kaiser Aetna v. United States*, 444 U.S. 164, 176 (1979); see also Dukeminier & Krier, *supra* note 103, at 58 (noting that Demsetz and Felix Cohen each stress the right of property owners to exclude others); Felix S. Cohen, *Dialogue on Private Property*, 9 *Rutgers L. Rev.* 357, 373 (1954) ("Private property is a relationship among human beings such that the so-called owner can exclude others from certain activities or permit others to engage in those activities and in either case secure the assistance of the law in carrying out his decision."); Morris R. Cohen, *Property and Sovereignty*, 13 *Cornell L.Q.* 8, 12, 21, 26 (1927) (discussing various limitations on property rights, including the right to exclude).

FN203. The storefront might not sit totally unused, because someone may risk use despite the possibility of removal or sanction by another anticommons owner. See *supra* notes 98-99.

FN204. See Cribbet & Johnson, *supra* note 11, at 380-89; Susan F. French, *Toward a Modern Law of Servitudes: Reweaving the Ancient Strands*, 55 S. Cal. L. Rev. 1261, 1263-64 (1982).

FN205. See Cribbet & Johnson, *supra* note 11, at 392 (noting that, although some states have passed statutes "to eliminate stale restrictions after the passage of time[,] ... [m]any states have no such legislation and the parties will have to rely on non-statutory methods of extinguishment, such as release, merger, waiver, abandonment, and change in neighborhood conditions").

FN206. One example of inescapable multiple privileges of inclusion would be riparian owners of a watercourse who have equal and correlative rights to use the water. See *id.* at 407. To resolve conflicts among owners locked together along the watercourse, American law has developed a doctrine of "reasonable use." *Id.*; see also Restatement (Second) of Torts §850A (1979) (identifying nine factors relevant to whether a riparian use is reasonable).

It is more difficult to imagine a situation in American law in which an owner can create inescapable multiple rights of exclusion. One example is the so-called "one stock" rule for the use of "profits a prendre" (namely, the right to come onto another's property and remove a resource such as fish or timber). See *Miller v. Lutheran Conference and Camp Ass'n*, 200 A. 646, 651-52 (Pa. 1938); Cribbet & Johnson, *supra* note 11, at 377 & n.54 (discussing misapplication of the "one stock" rule in *Miller*); Dukeminier & Krier, *supra* note 103, at 850. According to the "one stock" rule, joint owners of a profit must exercise their rights as if they were a single owner. Each can block use by the others. There is no provision to partition such a profit if the two owners fail to reach an agreement on use. This rule has been criticized as obsolete. See Note, *The Easement in Gross Revisited: Transferability and Divisibility Since 1945*, 39 Vand. L. Rev. 109, 128-34 (1986).

FN207. Michelman, *supra* note 9, at 6.

FN208. *Id.*

FN209. See *id.*

FN210. Ellickson, *supra* note 155, at 1322 n.22.

FN211. *Id.*

FN212. Dukeminier & Krier, *supra* note 103, at 58 (paraphrasing definitions of inclusion and exclusion by Felix Cohen, in article cited above in note 202).

FN213. See *id.*

FN214. In discussion with the author, James Krier has suggested a hypothetical nuclear waste dump so dangerous that everyone in the community has standing to exclude.

FN215. If the object were held as state property, the state may eventually decide that people could enter and use land previously set aside as a wilderness preserve. See

supra note 122 (defining "state property" as a property theory category). The state could employ its ordinary administrative mechanisms for reaching such a decision, reserve the decision to a legislature, or put the matter to a popular vote. In any of these circumstances, a majority or super-majority could decide to allow access. By contrast, if held as an anticommons under Michelman's definition, every single person holding a right of exclusion would have to agree before access could be allowed.

FN216. According to this example, consent of every single individual in an anticommons would be even more difficult to obtain than agreement by the state to use the property, in which perhaps a majority would be sufficient. Thus, an anticommons is the most efficient property regime for resources for which no use ever is the best use--a vanishingly small number of real-world cases.

FN217. Michelman, supra note 9, at 6.

FN218. Thus, the author disagrees with Ellickson's statement that "[b]ecause anticommons yield no profits, they are typically owned by either governments or nonprofit organizations." Ellickson, supra note 155, at 1322 n.22. In conversation with the author, Ellickson noted that property theorists have considered only the possibility of an open-access anticommons, which indeed may be rare, and have overlooked the example of a limited-access anticommons, which appears more often.

FN219. See supra pp. 643-44 (discussing informal rights in a kiosk anticommons); see also de Soto, supra note 111, at 19-33 (discussing informal property rights).

FN220. Michelman, supra note 9, at 4-5.

FN221. This low-value use would still provide less security in occupation than street kiosk use, because street kiosk use is relatively stable once the proper authorities or mafia members are paid off. See supra notes 98-99.

FN222. See supra p. 665.

FN223. *Cujus est solum, ejus est usque ad coelum et ad infernos* (whoever owns the soil, owns to the skies and to the depths). See Dukeminier & Krier, supra note 103, at 138.

FN224. A commons property regime might be shown without either horizontal or vertical heavy lines. Owners A, B, and C would then each have the privilege to use objects 1, 2, and 3 without seeking permission from the others.

FN225. Note that the anticommons owners of object 1 are not necessarily the same as those of objects 2 or 3. Thus, one can imagine owners D, E, and F having rights of exclusion in object 2, and owners G, H, and I in object 3. Neither the vertical nor the horizontal endowments of property necessarily correspond with any preferred distributive scheme: some owners might control several rights or objects, others might have none.

FN226. See supra p. 665.

FN227. A spatial anticommons, though not by this name, has been the subject of some economic modeling in the pollution context, in which many owners may be given the individual right to keep pollution off their plots unless bought out by the polluter. See V.V.

Chari & Larry E. Jones, A Reconsideration of the Problem of Social Cost: Free Riders and Monopolists 4-7 (July 1991) (unpublished manuscript, on file with the Harvard Law School Library).

FN228. Defining the normal boundaries of an object is difficult, in part because it assumes that an efficient or socially optimal scale of use exists. This Article attempts to elide this difficulty by focusing on objects for which the normal scale of use is reasonably uncontroversial, such as a store or an apartment. Even for such objects, however, an efficiency analysis may not easily capture non-utilitarian values such as the community solidarity that *komunalka* living could generate. See Margaret Jane Radin, *Residential Rent Control*, 15 *Phil. & Pub. Aff.* 350, 352-53 (1986) (advancing a non-utilitarian rationale for immobility generated by rent controls). But see *supra* p. 650 & n.148 (noting the hostility generated by communal living).

A different line of criticism argues that no single efficient scale of use exists for some objects because wealth or framing effects may dominate. See Craswell, *supra* note 16, at 385-91 (discussing wealth effects and framing effects). Defining the "normal" scale of an object becomes even more difficult as social conditions change, such as when a city considers using eminent domain to convert a residential neighborhood into an industrial plant. See *Poletown Neighborhood Council v. City of Detroit*, 304 N.W.2d 455, 457 (Mich. 1981). Does one consider the subjective values that neighbors experience from living in a vibrant community, or only the objective market value of the lots?

FN229. See, e.g., Michelman, *supra* note 9, at 5 (explaining that, in a commons, "there are never any exclusionary rights. All is privilege. People are legally free to do as they wish, and are able to do, with whatever objects (conceivably including persons) are in the [commons].").

FN230. See C.B. Macpherson, *Liberal-Democracy and Property*, in *Property: Mainstream and Critical Positions*, *supra* note 122, at 199, 201.

FN231. In describing non-private property, property theorists have characterized ocean fisheries, open ranges, fur trapping, potlaching, and gold mining as examples of commons property. See Arthur F. McEvoy, *The Fisherman's Problem: Ecology and Law in the California Fisheries 1850-1980*, at 257 (1986) (fisheries); Terry L. Anderson & P.J. Hill, *The Evolution of Property Rights: A Study of the American West*, 18 *J.L. & Econ.* 163, 169-72 (1975) (western land); Demsetz, *supra* note 19, at 351-53 (fur trappers); H. Scott Gordon, *The Economic Theory of a Common-Property Resource: The Fishery*, 62 *J. Pol. Econ.* 124, 134 (1954) (fisheries); D. Bruce Johnsen, *The Formation and Protection of Property Rights Among the Southern Kwakiutl Indians*, 15 *J. Leg. Stud.* 41, 41-42 (1986) (potlaching); John Umbeck, *A Theory of Contract Choice and the California Gold Rush*, 20 *J.L. & Econ.* 421, 422-23 (1977) (gold mining).

FN232. Michelman, *supra* note 9, at 9.

FN233. Barzel, *supra* note 176, at 71.

FN234. An influential strand of scholarship on property rights has come from economists building on a commons property analogy. For a sampling, see, for example, Barzel, cited above in note 176, at 71-72; Douglass C. North & Robert Paul Thomas, *The Rise of the Western World: A New Economic History* 23 (1973); and Demsetz, cited above in note 19, at 355-57.

FN235. Cf. Michelman, *supra* note 9, at 3-6 (identifying private property, state of nature, regulatory regime, and forced-sharing-of-needs regime).

FN236. The classic citation is Coase, cited above in note 16, at 8. Assuming no transaction costs or holdouts, owners may keep property in anticommons form and perfectly coordinate its use so its performance mimics that of private property. Cf. Lloyd Cohen, *Holdouts and Free Riders*, 20 J. Legal Stud. 351, 356 (1991) (explaining the circumstances that give rise to holdouts and free-riders and the consequences that result).

FN237. Even in a world without transaction costs, people would not necessarily bargain to put the anticommons resource to a unique use. Because of the presence of wealth or framing effects, there may be multiple efficient uses for an anticommons resource, depending on who initially holds the rights of exclusion. See Robert C. Ellickson, Carol M. Rose & Bruce A. Ackerman, *Perspectives on Property Law* 207-08 (2d ed. 1995); Harold Demsetz, *When Does the Rule of Liability Matter?*, 1 J. Legal Stud. 13, 25-28 (1972).

FN238. See Coase, *supra* note 18, at 174.

FN239. See *supra* p. 639. See generally Cohen, *supra* note 236, at 353-56 (distinguishing holding out from free riding); Cooter, *supra* note 157, at 17-19 (noting that, even when transaction costs are zero, disputes over distribution may lead to inefficient results).

FN240. See Ostrom, *supra* note 10, at 58-102 (detailing examples of informal norms successfully regulating commons use and avoiding commons tragedy). Robert Ellickson refines this analysis by distinguishing closed-access commons such as those described by Ostrom, in which close-knit groups may develop efficient norms to conserve scarce resources, from open-access commons, which anyone may enter. In an open-access regime, close-knit groups may not be effective in norm enforcement, and a tragedy of the commons is more likely to result. See generally Ellickson, *supra* note 19, at 177-82 (suggesting that the effectiveness of informal norms depends on groups having adequate information about members and multiple opportunities to sanction and reward members).

FN241. See, e.g., Rose, *supra* note 17, at 723, 774-81; but see *supra* note 148 (noting the hostility generated by communal living).

FN242. See Rose, *supra* note 17, at 723; see also Barry C. Field, *The Evolution of Property Rights*, 42 *Kyklos* 319, 320-21 (1989) (arguing that, under certain circumstances, property may shift away from private to commons ownership when it may be more efficiently used as a commons).

FN243. It is worth reiterating that private property systems place limits on an owner's ability intentionally to create such an anticommons because of the risk that the anticommons may outlive its economic value and paralyze future use.

FN244. Kennedy and Michelman disprove the presumptive efficiency of private property as an abstract proposition. For example, in a commons that people can pillage, farmers might nevertheless not be discouraged from planting. Instead, farmers may plant more so that they end up with a reasonable amount of food after others have pillaged. At this level of abstraction, the commons might be more efficient than private property if farmers are more efficient than poachers at farming. See Kennedy & Michelman, *supra* note 172,

at 718-19; see also James E. Krier, *The Tragedy of the Commons*, Part Two, 15 Harv. J.L. & Pub. Pol'y 325, 338 n.44 (1992) (discussing the contradictory need for cooperation from self-interested individuals when creating a private property regime); Carol M. Rose, *Property as Storytelling: Perspectives from Game Theory, Narrative Theory, Feminist Theory*, 2 Yale J.L. & Human. 37, 38-39 (1990) (arguing that classical property theorists resort to narrative gambits, rather than deriving the creation of private property from ex ante principles).

FN245. Demsetz gives the example of fur trapping among Labrador Indians. Before the advent of the fur trade, animals were held in common, and trappers took what they needed for themselves and their families. The increased commercial value that came with trade led to hunting on an increased scale and the depletion of fur stocks. Each trapper could gain the benefit of selling furs without taking into account the externalities imposed by free hunting. See Demsetz, *supra* note 19, at 351-53.

FN246. I am indebted to William Miller for this point. Miller notes that property theorists often confuse commons property regimes with commons property assets within a larger private property regime. In a commons property regime, in which the fish remain subject to others' rights of use after being caught, no tragedy of overuse may occur, because people might not fish at all. The tragedy of overuse often occurs only in the latter case, in which individuals can transform common assets such as fish into private property and where a market for such privately owned fish exists. Thus, the tragedy of the commons, like the tragedy of the anticommons, is a problem only within the context of a market economy and does not exist intrinsically within the category of commons property.

FN247. See Cohen, *supra* note 236, at 351-52 (defining free riders).

FN248. See Demsetz, *supra* note 19, at 351-53. Though the theoretical contributions of Demsetz's work are robust, the empirical foundations of his article have been criticized. See, e.g., William Cronon, *Changes in the Land* 184 n.7 (1983) (explaining that Demsetz "misconstrue[s] the social and ecological nature of property rights"); Dukeminier & Krier, *supra* note 103, at 61-62; Eric T. Freyfogle, *Land Use and the Study of Early American History*, 94 Yale L.J. 717, 740 n.73 (1985) (criticizing Demsetz's use of "incomplete historical data").

FN249. Michelman, *supra* note 9, at 29. As Hardin notes:

Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons....

[For example, in the pollution context,] [t]he rational man finds that his share of the cost of the wastes he discharges into the commons is less than the cost of purifying his wastes before releasing them. Since this is true for everyone, we are locked into a system of "fouling our own nest."

Hardin, *supra* note 10, at 1244-45.

FN250. See, e.g., Ostrom, *supra* note 10, at 182-85.

FN251. See *supra* pp. 657-59 (discussing possible contingent values of anticommons rights).

FN252. See Ellickson, *supra* note 155, at 1327-28 ("Monitoring boundary crossings is easier than monitoring the behavior of persons situated inside boundaries. For this reason, managers are paid more than night watchmen." (footnote omitted)).

FN253. See Demsetz, *supra* note 19, at 350.

FN254. See Ellickson, *supra* note 155, at 1327-30. In addition, to the extent there are some spillover effects in resource use, private property reduces the number of people with whom an owner must negotiate. See *id.* at 1330. By reducing the number of decisionmakers, private property reduces the transaction costs of internalizing the remaining externalities.

FN255. See Demsetz, *supra* note 19, at 356.

FN256. Carol Rose has noted the vague quality of the classical story and has explored the narrative gambits that classical theorists use to describe the shift from commons to private property. See Rose, *supra* note 244, at 37-40; see also Krier, *supra* note 244, at 338 & n.44 (noting that the standard economic accounts of property contain a contradictory story for cooperation by self-interested individuals when they create private property regimes).

Ellickson takes up the challenge "to identify a collective-action mechanism through which a group would succeed in generating cooperative land rules [by offering] some speculations on evolutionary dynamics of property in land." Ellickson, *supra* note 155, at 1321 n.19. He suggests a focus on the dynamics of close-knit groups for the evolution of efficient norms within the group. See *id.* at 1366.

FN257. The enclosure of the medieval open fields perhaps offers a parallel to the conversion of Moscow anticommons property. The shifts in both property regimes appear to enhance efficiency overall, while dispossessing and brutalizing certain groups. Both shifts were accomplished partly through market forces and partly through legislative fiat. See Ellickson, *supra* note 155, at 1391-92 (discussing the mixed record of the enclosure movement and citing the relevant literature).

FN258. Although the question comes from Lenin, one answer may lie in game theory-modeling of the anticommons, a direction for future research.

END OF EXCERPT

A Politics of Intellectual Property: Environmentalism for the Net?

James Boyle^{^^} 47 Duke L.J. 87 (1997)

Introduction: This Article argues that we need a politics, or perhaps a political economy, of intellectual property. Using the controversy over copyright on the Net as a case-study and the history of the environmental movement as a comparison, it offers a couple of modest proposals about what such a politics might look like -- what theoretical ideas it might draw upon and what constituencies it might unite.

I

"CODE IS CODE" - THE LOGIC OF THE INFORMATION RELATION

Everyone says that we are moving to an information age. Everyone says that the ownership and control of information is one of the most important forms of power in contemporary society. These ideas are so well-accepted, such cliches, that I can get away with saying them in a *law review article* without footnote support. (For those blessedly unfamiliar with law reviews, this is a status given to only the most staggeringly obvious claims; the theory of evolution,¹ and the orbit of the earth around the sun,² probably would not qualify.)

Beyond the claim that the information society exists, however, there is surprisingly little theoretical work. Sadly for academics, the best social theorists of the information age are still science fiction writers and, in particular, cyberpunks -- the originators of the phrase "cyberspace" and the premier fantasists of the Net.³ If one wants to understand the information age, this is a good place to start.

Cyberpunk science fiction succeeded as a genre largely because it combined a particular plot aesthetic with a particular conceptual insight. The plot aesthetic was simple; the bad boy/film noir world of the romantic lowlife. When juxtaposed to the 2-dimensional priggishness of the normal science fiction hero, the cigarette smoking, drugged-out petty outlaws and mirror-shaded ninja-chicks of cyberpunk seemed rebellious, cynical and just, well, *cool*. The character-type is a familiar one; James Dean could easily have played the hero of *Neuromancer*.⁴ The conceptual insight is not so familiar. Cyberpunk is built on the

^{^^} © James Boyle 1997. This article draws on ideas first developed in my book, *SHAMANS, SOFTWARE AND SPLEENS: LAW AND THE CONSTRUCTION OF THE INFORMATION SOCIETY* (1996). Those who study intellectual property will realize how extensive a debt this article owes to David Lange's classic piece "Recognizing the Public Domain," 44 *Law and Contemporary Problems* 147 (1981). Thanks are also due to Keith Aoki, John Perry Barlow, Robert Gordon, Peter Jaszi, Jessica Litman, Bruce Sterling and to the Yale and Columbia Legal Theory Workshop Series.

¹ See CHARLES DARWIN, *ON THE ORIGIN OF SPECIES BY MEANS OF NATURAL SELECTION* (1859) *but see* *Genesis* 1:1-29 *contra*.

² See NICOLAUS COPERNICUS, *CONCERNING THE REVOLUTIONS OF THE CELESTIAL SPHERES* (1543) *but see* CLAUDIUS PTOLEMAEUS, *ALMAGEST* (c. 170 A.D) *contra*.

³ See *MIRRORSHADES* (Bruce Sterling ed. 1988).

⁴ The classic example is WILLIAM GIBSON, *NEUROMANCER* (1984).

extrapolation of two principal technologies, computers and the Web on the one hand, and genetic engineering on the other.

The theme of cyberpunk is that the information age means the homologisation of all forms of information -- whether genetic, electronic, or demographic. I grew up believing that genes had to do with biology, petri dishes and cells and that computers had to do with punch cards and magnetic disks. It would be hard to imagine two more disparate fields. In contrast cyberpunk sees only one issue ~ code ~ expressed in binary digits or the C's, G's, A's and T's on a gene map.

The cyberpunk writers also offer us a legal insight. The more one moves to a world in which the message, rather than the medium, is the focus of conceptual, and economic interest, the more central does intellectual property become. Intellectual property is the legal form of the information age.⁵ Like most property regimes, our intellectual property regime will be contentious, in distributional, ideological and efficiency terms. It will have effects on market power, economic concentration and social structure. Yet, right now, we have no politics of intellectual property -- in the way that we have a politics of the environment or of tax reform. We lack a conceptual map of issues, a rough working model of costs and benefits and a functioning coalition-politics of groups unified by common interest perceived in apparently diverse situations.

Why don't we have such a politics? One reason is that with a few exceptions, the mass media coverage of the information age has been focused firmly on "cyberporn" and its potential censorship. This is rather like thinking that the most important feature of the industrial revolution was that it allowed the mass-production -- and then the regulation -- of pornographic magazines. Given the magnitude of the changes occurring, and the relatively small differences between pornography on-line and pornography anywhere else, a more trivial emblematic concern would have been hard to find.

It is intellectual property, not the regulation of cyber-smut, that provides the key to the distribution of wealth, power and access in the information society. The intellectual property regime could make -- or break -- the educational, political, scientific and cultural promise of the Net. Indeed, even if our *only* concern was censorship, it is perverse to concentrate exclusively on the actions of governments. The digital world gives new salience to *private* censorship -- the control by intellectual property holders of distribution of and access to information. The recent Scientology cases are only the most obvious manifestation of this tendency.⁶

⁵ For background on the concept of legal form see I. Balbus, *Commodity Form and Legal Form: An Essay on the 'Relative Autonomy' of the Law*, 11 *LAW & SOC'Y REV.* 571 (1977); P. HIRST, *ON LAW AND IDEOLOGY* 106-22, 122-26 (1979) Warrington, Pashukanis and the Commodity Form Theory, 9 *INT'L J. SOC. L.* 1 (1981) M. WEBER, *ON LAW IN ECONOMY AND SOCIETY* (M. Rheinstein ed. 1954); Cain, *The Limits of Idealism: Max Weber and the Sociology of Law*, 3 *RESEARCH IN L. & SOC.* 53 (1980); Trubek, *Max Weber on Law and the Rise of Capitalism*, 3 *WIS. L. REV.* 720 (1972).

⁶ *Church of Scientology Int'l v. Fishman*, 35 F.3d 570 (9th Cir. 1994); *Religious Technology Center v. Netcom On-Line Communications Servs.*, 907 F. Supp. 1361, 1377-1378 (D.Cal. 1995). *Religious Technology Center v. Arnaldo Pagliarina Lerma*, 908 F. Supp. 1362, 1368 (E.D. Va. 1995). The Scientology cases had a number of facts in common. A disgruntled former church member or insider posts large chunks of material copied directly from the "Religious Technology" manuals to the Web or the Usenet. To a skeptical reader it appears that the manuals describe a jargon-laden process for manipulating people into joining the Church of Scientology -- EST meets B.F. Skinner. To the believer, these manuals are holy documents which 1.) Should be available only to the faithful of the

(continued...)

The media were not the only ones to miss the boat. Lawyers and legal academics largely followed suit. With a few exceptions, lawyers have assumed that intellectual property was an esoteric and arcane field, something that was only interesting (and comprehensible) to practitioners in the field.⁷ There is some question whether this attitude was ever defensible; it certainly is not now. In terms of ideology and rhetorical structure, no less than practical economic effect, intellectual property is the legal form of the information age. It is the *locus* of the most important decisions in information policy. It profoundly affects the distribution of political and economic power in the digital environment. It has impacts on issues ranging from education to free speech. The “value” protected⁸ by intellectual property in the world economy is in the hundreds of billions of dollars and growing all the time.⁹

⁶(...continued)

church and 2.) which, in copyrighted language, describe procedures protected by trade secret law for carrying on the church’s profitable anti-addiction therapies and other work. The courts have tended to favor the skeptic’s interpretation. (“Although the RTC brought the complaint under traditional secular concepts of copyright and trade secret law, it has become clear that a much broader motivation prevailed--the stifling of criticism and dissent of the religious practices of Scientology and the destruction of its opponents”). *Id.* at 1377-1378. Nevertheless, they have still found the primary poster or copier of the material to be liable for copyright infringement, while being more sympathetic to the unwitting Internet Service Provider on whose computers’ the posting was made, or the newspaper who quoted from the documents in order to report on the case.

⁷ This attitude is in marked contrast to lawyers’ assumptions about, say, the jurisprudence of the First Amendment, or the Education Department’s rulings on race-conscious scholarships. Though these are also complicated areas of law or regulation, many lawyers and laypeople feel that a basic understanding of them is a *sine qua non* of political consciousness. In many cases, in fact, the language of liberal legalism defines the central issues of public debate -- a fact that presents its own problems.

⁸ And, in an important sense, created.

⁹ Boyle, Shamans *supra* note _ at 1-16, 119-143. Lester C. Thurow, *Competing in the Information Economy; Needed: a New System of Intellectual Property Rights* Harvard Business Review, September, 1997 at 95. Michael L. Doane, Trips and International Intellectual Property Protection in an Age of Advancing Technology, 9 Am. U. J. Int’l L. & Pol’y 465 (1994) “But most years the proportion of world trade in physical goods shrinks, vis-a-vis the trade in invisibles. Japan exports now not so much by moving the cars around the world, but by moving the money and ideas with which the cars are made: manufacture is increasingly local. Even where goods are shifted, the act of physical transfer may just be an electronic signal. For the moment items like pop videos and CDs are moved in physical form, though of course the value of the product is 99 per cent the information on the disc or cassette, rather than the item itself. But soon the sale will involve just the transfer of some digital signals and will appear as royalties or rights rather than exports... [P]hysical exports will be less important in world trade than they are now. The various types of invisible exports - income flows from investments, payments for services, payments for intellectual property - will soon be larger than the flow of visible exports.” Hamish McRae *Economics: Here come the famous five*, The Independent September 14, 1997, Sunday, ECONOMICS; Page 5. The actual figures bandied around are notoriously slippery; earnings from intellectual property may be “invisible” on conventional trade balance sheets, when they are cited it is generally on a much more case-by-case basis -- e.g. intellectual property value of drugs derived from plant forms (e.g. Darrell A. Posey, *People, Property, and Bioprospecting: Protecting indigenous peoples' rights to biodiversity*; Environment, October, 1996, Vol. 38 No. 8 Pg. 6.) or of software. Finally, the economics of the estimates themselves are extremely speculative. For example though it is claimed that the United States alone lost \$60 billion a year through failure to enforce intellectual property rights, (Doane, *supra* at 468) the assumptions behind such assessments are often debatable. Losses quoted for “piracy” -- for example -- often assume that each pirated copy of software would have otherwise been bought at full price. But even with all of these limitations, and taking the lowest possible figures for software, pharmaceuticals, data-trading etc. it is clear that the “knowledge-value” component of the world economy is both enormous and expanding. See generally, Taichi Sakaiya, *THE KNOWLEDGE VALUE REVOLUTION: A HISTORY OF THE FUTURE* (1991)..

A. The Homologizing Of Information *Forms*:

There are structural reasons why these tendencies will continue. The first crucial aspect of the current information economy is the increasing homologisation of *forms* of information. Think of the many ways in which it now does not make sense to distinguish between electronic and genetic information -- any more than between red books or green books.

We used to think of genetics as involving the discipline of biology, the technology of the test tube or the reagent, and the regulatory issues of bioethics and possible contamination. This hardly suggests any link to the world of software, computer science and databases. Yet, precisely because we conceive of them as (and have the technical capability to treat them as) information, both genetic and electronic information have come to present the same issues of regulation -- privacy, access, public goods problems, and so on. Change a few nouns and a debate over the compilation and economic exploitation of databases of private financial information available on the Internet can be morphed into a debate over the compilation and economic exploitation of genetic information through the Human Genome Project. Whose privacy is at risk? What adverse decisions about individuals may be made on the basis of patterns revealed by the data? Who has invested money and labor in compilation? What intellectual property rights are necessary in order to ensure future research and information gathering? Who has a right of access to the information, and under what circumstances?

In some cases the overlap between forms of information is a literal one. Genetic information is stored on computer disk and modeled and probed through "gene chips."¹⁰ But "information-overlap" also reveals itself in the functional similarities of the business models used to exploit information advantage. Those who control information use strategies to make money from it that are remarkably similar whether the information in question is the record of filings in front of the SEC or the gene maps revealed by the human genome project.¹¹ In still other cases, the impact of the homology is on the boundaries of our intellectual frameworks themselves. An example is the development of the mathematical-biological/computer-science discipline of bio-informatics, a discipline which

¹⁰ "In a 'clean room' similar to many others in Silicon Valley, a group of technicians is assembling batches of chips with the usual machines of a semiconductor factory. But these chips are not fabricated from layers of silicon. They are being made from DNA, the stuff of genes. And they are designed not to do computations but to read out the turbulent streams of information that evolution has packed into the genomes of living organisms... The basic idea of the chips is to convert the chemistry of life into a static form programmed to monitor particular genes. The chips are not in any sense living things, though they are made of DNA and programmed from the sequence of whatever gene they target. (The need to know the code in advance is in many cases not a serious limitation because many genes have now been sequenced, which means that the order of their chemical units has been determined.)" *Meeting of Computers and Biology: The DNA Chip* The New York Times, April 8, 1997 at C 1.

¹¹ Biotech firms add value to information developed through publicly funded research and then demand patent options as the prerequisite for access by outsiders. See, e.g., Karen Riley, *Rockville Biotech Firm takes Next Step in Genetics Journey*, WASH. TIMES., June 9, 1995, at B7. More modestly, financial database providers add value to public filings, provide free limited access and full access for a fee, while also supporting themselves with advertising revenue. "Edgar Online Targets Stock Traders with Low Prices" INTERACTIVE MARKETING NEWS October 25, 1996 Vol. 3, No. 29.

is premised on the belief that information is information, whether the medium is a double helix or an optical disk.¹²

What effect does the homology have on our culture and our political debate? We are used to the idea that Microsoft retains rights over the lines of code sitting on computer hard drives around the world. We can even produce a utilitarian justification to explain why. It is a lot stranger to think that women all over the country may carry in their bodies a string of genetic information -- *brca1*, the so-called breast cancer gene -- that has been patented by Myriad Genetics or that the Commerce Department tried to patent the genes of a Guyami Indian woman who possessed an abnormal resistance to leukemia.¹³ From the point of view of the information economy, though, the two cases are very similar; in each case, strings of code are subject to intellectual property rights granted in the belief that they will inspire further innovation and discovery. The fact that this can be done in the face of the profound shock most people feel at the ownership of human genes is a testament to the universalizing logic of the information relation.

(Whether or not it is a *good idea* for us to treat our genetic heritage as just another line of code, is an entirely different question.)

So far as I can tell, the "homologising" process I have described here is accelerating, indeed it seems to be the metaphor for some of the most interesting speculative scientific developments of recent years. The science pages have seen speculation about the possibility of using DNA sequences as incredibly powerful parallel processing "computers."¹⁴ Not only can DNA be turned into a computer, the process can be reversed; Software designers have created electronic ecologies in which lines of computer code struggle to succeed, evolving and changing in the process. The software engineer keeps only those strings of computer code which have proven themselves as survivors -- harnessing a form of "natural" selection that Darwin would have recognised but could never have imagined.¹⁵

Put all of these examples together and then compare the resultant socially and technologically constructed "reality" to the way that we thought about computers on the one hand and biology on the other, just twenty years ago. In the international information economy, the medium is not the message. The medium is *irrelevant*.

B. The Decreasing Marginal Cost Of Medium as Opposed to Message

¹² For an introduction to the biological applications of information theory, see *Biological Information Theory and Chowder Society FAQ*, to be found at Usenet newsgroup bionet.info-theory.

¹³ "In the forests of Panama lives a Guyami Indian woman who is unusually resistant to a virus that causes leukaemia. She was discovered by scientific "gene hunters", engaged in seeking out native peoples whose lives and cultures are threatened with extinction. Though they provided basic medical care, the hunters did not set out to preserve the people, only their genes - which can be kept in cultures of "immortalised" cells grown in the laboratory. In 1993, the US Department of Commerce tried to patent the Guyami woman's genes - and only abandoned the attempt in the face of furious protest from representatives of indigenous peoples." Tom Wilkie, *Whose gene is it anyway?*, INDEP., Nov. 19, 1995, at 75.

¹⁴ See, e.g., Frank Guarnieri et al., *Making DNA Add*, SCIENCE, July 12, 1996, at 220.

¹⁵ See, e.g., Julian Dibbell, *The Race to Build Intelligent Machines*, TIME, Mar. 25, 1996, at 56.

The second crucial aspect of the information economy is a corollary of the homologisation of forms of information; the decreasing proportion of product cost and intellectual attention devoted to medium (diskettes, cell-lines) rather than message (software, decoded DNA sequences). A moment's thought will show that *both* of these aspects will give increased importance to intellectual property. Reconceiving new areas of science, commerce and research as "information issues" simply gives us more fields in which it is likely we will spy the public goods problems that intellectual property is supposed to solve. And the diminishing portion of product cost devoted to medium rather than message means that, within any given area, the public goods problems grow all the more salient; The price of the program rises, at least relative to the falling price of the diskette onto which it can be copied. Thus more attention is focused on ways of protecting the content, rather than controlling physical distribution.

When I say that we lack a politics of intellectual property, I don't mean to imply that this is the only type of "information politics" one could imagine -- more like the most neglected. Look at the recent past. From the net roots campaign against the Communications Decency Act to the titanic industry lobbying over the Telecommunication Bill in which the CDA was embedded, there have been many moments of political struggle and agitation over digital commerce and communications regulation.¹⁶ There have been conferences, both Pollyannish and despairing, over the use of the Net by non profit groups, and thoughtful warnings of the dangers posed by disparate access to information technologies. These are serious points; the issue of access in particular. But in most cases, the issues I have just mentioned are isolated applications to a new technology of a familiar political worldview or calculation of self-interest.

Libertarians don't want newspapers censored; their attitude to the Net is the same (though the interactive quality of the technology, and the proprietary feeling that novelty gives first adopters have certainly given more people a stake in the protection of the system.) Non-profit groups have to adjust to changes in communications technology, just like changes in tax law, or the regulation of lobbying. Communications conglomerates have an attitude towards bandwidth that seems indistinguishable from most commercial entities' attitude towards publicly land; rationally enough, they want more, they want it free (ideally, they want it subsidised) and they want to be able to exploit it without strings. The left sees a resource with new importance -- access to information technology -- and makes about it the points that it makes about access to health care or education.¹⁷ I don't mean to minimise these concerns, and certainly don't want to make the claim that they are somehow less fundamental than the ones I describe here. But I do think that, precisely because of their comfortable familiarity, they miss some of the *differences* in the politics of the information age, the ideas we have not thought about so often or so well.

¹⁶See Communications Decency Act of 1996, Pub. L. No. 104-104, 110 Stat. 133 (codified at various sections of 47 U.S.C and 18 U.S.C); *see also generally ALA-led Coalition Challenges CDA*, AM. LIBR., Apr. 1996, at 13.

¹⁷ Given the fate of these arguments in the contemporary political arena, maybe I should reiterate them; Distribution of this good (education, health care, wired-ness) through a market system is going to have a lot of serious negative effects on those who cannot pay, effects that will track and actually intensify existing inequalities of class, race and gender. Given the importance of the resource in question, its relevance to the citizens' status *qua* citizen, and the corrosive effects of such inequalities on the well-being of the polity, something should be done to mitigate or eliminate the problem of access. All of this seems profoundly true, but it is hardly a new argument. In fact, subject matter aside, it would have been completely familiar to the authors of the Federalist Papers.

III

THE CONCEPTUAL STRUCTURE OF AN INTELLECTUAL LAND-GRAB

Elsewhere, I have argued at unseemly length that there are structural tendencies in our patterns of thinking and discourse about intellectual property that lead us generally to “over” rather than “under-protect”¹⁸ and that, partly as a result we are currently in the midst of an intellectual land-grab, an unprecedented privatization of the public domain.¹⁹ I will summarise, rather than attempt to justify those claims here. (A chart that might be helpful is provided in the table on page 13.)

One of the roots of the problem is a conceptual one. The economic analysis of information is beset by internal contradiction and uncertainty; information is both a component of the perfect market and a good that must be produced within that market. Under the former characterisation, information is supposed to move towards perfection -- a state in which it is costless, instantly available and so on. Under the latter characterisation, information must be commodified so as to give its producers an incentive to produce. But each property right handed out to ensure the production of information is a transaction cost when seen from the perspective of market efficiency.²⁰

The most succinct encapsulation of the problem comes from an article co-written by Joseph Stiglitz and Sanford Grossman, two of the most distinguished scholars of information economics. “There is a fundamental conflict between the efficiency with which markets spread information and the incentives to acquire information.”²¹ This conflict is

¹⁸ For the arguments behind this claim, see JAMES BOYLE, *SHAMANS, SOFTWARE AND SPLEENS: LAW AND THE CONSTRUCTION OF THE INFORMATION SOCIETY* (1996).

¹⁹ To assess the precise nature of the analogy to “land grabs” in the American West, readers might care to look at Bernard DeVoto, *Sacred Cows and the Public Domain* in BERNARD AUGUSTINE DEVOTO, *THE EASY CHAIR* (1955).

²⁰ In the book, I explore the reasons that this problem is not “solved” when one moves to the reality of imperfect markets. The abstract idea of “trade-offs” also proves insufficient to generate the determinacy of result which most analysts claim for their work.

²¹ Sanford J. Grossman & Joseph E. Stiglitz, *On the Impossibility of Informationally Efficient Markets*, 70 AM. ECON. REV. 393, 405 (1980). I cannot here go into the full joys of this debate, but those who talk confidently about the economic efficiency of the fine details of intellectual property doctrine would do well to look at the absolutely basic disputes between information economists. For example, Kenneth Arrow argues that, without intellectual property rights, too *little* information will be produced because producers of information will not be able to capture its true value. (Even with intellectual property rights he believes that certain kind of information generation may need direct government subsidy on a ‘cost-plus’ basis.) Kenneth Arrow, *Economic Welfare and the Allocation of Resources for Invention*, in RATE AND DIRECTION OF INVENTIVE ACTIVITY: ECONOMIC AND SOCIAL FACTORS, 609, 617 (National Bureau of Economic Research ed., 1962). Fama and Laffer, on the other hand, argue that, without intellectual property rights, too *much* information will be generated, because some information will be produced only in order to gain some temporary advantage in trading, thus redistributing wealth but not achieving greater allocative efficiency. Eugene F. Fama & Arthur B. Laffer, *Information and Capital Markets*, 44 J. BUS. 289 (1971). In other words, in the absence of information property rights, there may be an inefficiently *high* investment of social resources in information-gathering activities, activities that merely slice the pie up differently, rather than making it bigger. Hirshleifer gives a similar analysis of patent law, ending up with the conclusion that patent law may be *either* a necessary incentive for the production of inventions *or* an unnecessary legal monopoly in information that overcompensates an inventor who has already had the opportunity to trade on the information implied by his or her discovery. Jack Hirshleifer, *The Private and Social Value of Information and the Reward to Inventive Activity*, 61 AM. ECON. REV. 561 (1971). The difficulty of yielding definite results is compounded by the fact that some professional economists seem to have a naive, pre-realist understanding of law. They often talk as though there was a natural suite of property rights which automatically accompanied a free market. They make strong and unexplained

(continued...)

often, though not always “solved” by ignoring it. A pre-theoretical classification is made, conventionally ascribing a certain problem to the realm of “efficiency problems” or “incentive problems” and the discussion then continues on that basis. Thus for example, we tend to look at the field of intellectual property with a finely honed sensitivity to “public goods” problems that might lead to under production, while underestimating or failing to mention the efficiency costs and other losses generated by the very rights we are granting.²²

An alternative method for smoothing over the tensions in the policy analysis is for the analyst to acknowledge the tension between efficiency and incentives, point out that there are some limitations imposed on intellectual property rights, to conclude that there are both efficiency-promoting and incentive promoting aspects to intellectual property law, and then to imply that an optimal balance has been struck.²³ (This is rather like saying that because fishermen throw some fish back, we can assume over-fishing is not occurring.)

In general, I would claim there is a tendency to think that intellectual property is a place to apply our “public goods/incentives theory” rather than our “anti-monopoly/free-flow of information” theory.²⁴ All by itself, this tendency might push rhetoric and analysis towards more expansive property rights. The tendency is compounded, however, by two others.

First, courts are traditionally much less sensitive to First Amendment, free speech and other “free flow of information arguments” when the context is seen as private rather than public, property rather than censorship. Thus, for example, the Supreme Court will

²¹(...continued)

assumptions that certain types of activities (for example, trading on a superior information-position) would “naturally” be allowed and involve no “harm” to others, but that certain others (for example, trading on coercion through superior physical strength) will not be. There is a fascinating study to be done on these remnants of classical economics still present in a supposedly neo-classical analysis. The same kind of error also creeps into the work of some lawyer-economists. Compare, e.g., Saul Levmore, *Securities and Secrets: Insider Trading and the Law of Contracts*, 68 VA. L. REV. 117 (1982) with Boyle, Shamans at 84-88.

²² Boyle, Shamans *supra* note 1 at 35-46.

²³ Some are more sophisticated. “In principle, there is a level of copyright protection that balances these two competing interests optimally...We shall see...that various doctrines of copyright law, such as the distinction between idea and expression and the fair use doctrine, can be understood as *attempts* to promote economic efficiency...” William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325, 333 (1989) (emphasis added). Despite the qualifying phrases one leaves the article with the sense that the copyright law has hit the appropriate balance between efficiency and incentives. This level of comfort with the current regime is to be compared with the open skepticism displayed by an economist such as Hirshleifer. See Jack Hirshleifer, *The Private and Social Value of Information and the Reward to Inventive Activity*, 61 AM. ECON. REV. 561, 572 (1971) (because of the possibility of speculation on prior knowledge of invention and the uncertainties of “irrelevant” risks, patent protection may or may not be necessary in order to produce an appropriate incentive to invention). It will be interesting to watch the Supreme Court’s attitude towards these issues over the next few years, given the identity of one of the original skeptics. See Stephen Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies, and Computer Programs*, 84 HARV. LAW REV. 281 (1970).

²⁴ In one sense, the current configuration of Federal bureaucracies mirrors the tensions I have been describing in this article; the FTC and the Justice Department tend to view information issues from within an efficiency perspective, accepting the need for economic incentives but more skeptical of the monopoly effects of extensive intellectual property rights. The Commerce Department -- and the administration, on the other hand -- take a strong incentive-focused approach to most issues. As a result, the battle to regulate the information economy is a fascinating fusion of organizational *persona*, economic theory and political turf war. See, e.g., Federal Trade Commissioner Christine A. Varney, Antitrust in the Information Age, Remarks before the Charles River Associates Conference on Economics, in LEGAL & REG. PROC., May 4, 1995.

refuse to allow the state to ban flag burning,²⁵ but is quite happy to create a property right in a general word such as "Olympic," convey it to a private party and then allow the private party selectively to refuse public usage of the word. Backed by this state-sponsored "homestead law for the language,"²⁶ the US Olympic Committee has decreed that the handicapped may have their "Special Olympics," but that gay activists may not hold a "Gay Olympics."²⁷ The Court saw the USOC's decision not as state censorship but as a mere exercise of their private property rights. (Emboldened, Justice Rehnquist advocated applied the same argument to the flag.)²⁸

Second, intellectual property rights are given only for "original" creation. But the idea of the original author or inventor implicitly devalues the importance of the raw materials with which any creator works -- the rhetorical focus on originality leads to a tendency to undervalue the public domain. After all, the novelist who, as Paul Goldstein puts it, "craft[s] out of thin air"²⁹ does not need a rich and fertile public domain on which to draw. The ironic result is that a regime which lauds and proposes to encourage the great creator, may in that process actually function to take away the raw materials which future creators need to produce *their* little piece of innovation. My book provides a lengthy discussion of this tendency so I will not dwell on it here.

IV

A BRIEF CASE-STUDY: COPYRIGHT ON THE NET

So much for the background. Now a brief case study. The difficulty is not in finding an example of intellectual property expansion, but in knowing which one to pick. The last few years have seen the expansion of first copyright and then patent to cover software, the patenting of life-forms and human genes, the extension of copyright term limits. Speaking not to the level of protection, but to the current conception of intellectual property law, it is interesting to note the legislative proposal that the Patent Office (and perhaps even the Copyright Office) should cease to be part of the government -- being converted instead to government corporations or "performance based organisations" which would thus be forced to pay greater attention to their "users" and might even be funded through user fees.³⁰ The idea that the rights-holders are the true "users" or "clients" of the office is a striking one.

On the international level we have seen the use of the GATT to turn intellectual property violations into trade violations, thus codifying a particular vision of intellectual property and sanctifying it with the label of "The Market."³¹ The example I will pick,

²⁵ Texas v. Johnson

²⁶ Felix Cohen's phrase. *Transcendental Nonsense and the Functional Approach*, 25 COLUM. L. REV. 809 (1935), reprinted in THE LEGAL CONSCIENCE: SELECTED PAPERS OF FELIX S. COHEN (Lucy K. Cohen ed., 1970), at 33, 42.

²⁷ San Francisco Arts & Athletics, Inc., et al. v. United States Olympic Committee, 483 U.S. 522.

²⁸ "Only two terms ago in *San Francisco Arts and Athletics, Inc. v. United States Olympic Committee*, the Court held that Congress could grant exclusive use of the word "Olympic" to the United States Olympic Committee... As the Court stated 'when a word [or symbol] acquires 'value as the result of organization and the expenditure of labor, skill and money' by an entity, that entity constitutionally may obtain a limited property right in the word [or symbol].' Surely Congress or the States may recognize a similar interest in the flag." Texas v. Johnson, 491 U.S. 397, 429-30 (1989).

²⁹ Paul Goldstein, *Copyright*, 38 J. COPYRIGHT SOC'Y OF THE U.S.A. 109, 110 (1991) (emphasis added.)

³⁰ Omnibus Patent Act of 1996, S. 1961, 104th Cong.; Morehead-Schroeder Patent Reform Act, H.R. 3460, 104th Cong. (1996).

³¹ Employing child labour or violating environmental regulations will give a nation's industry what might

(continued...)

however, is the Clinton Administration's proposal for copyright on the Net, a document which provided the blueprint for the last two years of domestic and international regulatory efforts to expand intellectual property rights.

If the information society has an iconic form (one could hardly say an embodiment) it is the Internet. The Net is the anarchic, decentralised network of computers that provides the main locus of digital interchange. While Vice-President Gore, the Commerce Department and the National Telecommunications and Information Administration were *planning* the "information superhighway" the Net was *becoming* it.

Accordingly, if the government produced a proposal that laid down the ground rules for the information economy, that profoundly altered the distribution of property rights over this extremely important resource and that threatened to "lock in" the power of current market leaders, one would expect a great deal of attention to be paid by lawyers, scholars and the media.

Nothing could be further from the truth. The appearance of the Clinton Administration "White Paper"³² on intellectual property on the National Information Infrastructure produced almost no press reaction. The same was true of the introduction and eventual stalling of the White Paper's legislative proposals in both the House and the Senate.³³ Slightly more attention was paid when the Administration transferred its efforts to the international arena -- reintroducing the key elements of the failed legislation as treaty proposals at the WIPO conference in Geneva. The Administration even added a new "database" proposal³⁴ which would have created an entirely novel (and probably unconstitutional) right to own *facts*, a right that would have been effectively permanent and which would not have been restrained by the traditional limitations of the copyright law, such as fair use. This proposal, with its potentially devastating effects on research and free speech and its offer of a potent new tool of private censorship, drew fire from the research

³¹(...continued)

seem to be an unfair competitive advantage, but will not trigger trade sanctions. See, e.g., Robert Howse and Michael J. Trebilcock, *The Fair Trade-Free Trade Debate: Trade, Labor, and the Environment*, 16 Int'l Rev. L. & Econ. 61 (discussing the absence from the GATT/World Trade Organization framework of provisions for sanctions in response to other nations' environmental and labor practices); *but see* North American Agreement on Labor Cooperation, Sept. 13, 1993, Can.-Mex.-U.S., ann. 1, 32 I.L.M. 1499 (1993). Refusing to accept and enforce our vision of intellectual property law, however, is cause for international action. *See generally* J. H. Reichman, *Compliance with the TRIPS Agreement: Introduction to a Scholarly Debate*, 29 Vand. J. Transnat'l L. 363 (1996).

³² INFORMATION INFRASTRUCTURE TASK FORCE, *INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE: THE REPORT OF THE WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS* (1995) [hereinafter *WHITE PAPER*]. *See also* James Boyle, *Sold Out*, N.Y. TIMES, Mar. 31, 1996; *Is Congress Turning the Internet into an Information Toll Road?*, INSIGHT, Jan. 15, 1996, at 24. This section of the Article is a revised version of the analysis provided in SHAMANS and in those articles.

³³ HR 2441 and S. 1284 eventually stalled because of intense resistance from a variety of groups including internet service providers, computer companies who embrace "open systems," teachers, scientists and civil libertarians.

³⁴ BASIC PROPOSAL FOR THE SUBSTANTIVE PROVISIONS OF THE TREATY ON INTELLECTUAL PROPERTY IN RESPECT OF DATABASES TO BE CONSIDERED BY THE DIPLOMATIC CONFERENCE
http://www.wipo.int:80/eng/diplconf/6dc_all.htm

establishment, civil liberties groups and even -- embarrassingly for its proponents -- from the database industry it was designed to protect.³⁵ For a moment, public attention was focused on the extraordinary privatization of the public domain being carried on in the name of incentives. (Notably, it was the fact that the database proposal might restrict access to sports statistics that was cited as chief reason against it.)³⁶

Eventually, the United States abandoned the proposed database treaty and -- baseball scores being safe -- public attention subsided once more. The legislative debate has now shifted to the WIPO Copyright treaty implementing legislation, which repeats all the key elements of the expansive intellectual property agenda first laid out in the White Paper.³⁷ If one wishes to understand the lacunae and blind-spots in our current discourse of intellectual property, it is to this document one should turn.

Elsewhere I, and many others, have written about the problems with the White Paper's account of current law, its distressing tendency to misstate, minimise or simply ignore contrary cases, policy and legislative history, and its habit of presenting as settled, that which is in fact a matter of profound dispute.³⁸ There have also been thoughtful analyses of some of the potential negative effects of the White Paper and its implementing legislation, particularly focusing on the consequences for libraries, for software innovation

³⁵ <http://www.public-domain.org/database/db.html>

³⁶ "James Love of the Consumer Project on Technology, a Ralph Nader organization that has been tracking the proposed treaty, said public opinion against the plan was galvanized when it became apparent that the treaty would affect the dissemination of sports statistics. If the treaty became law, Love said, newspapers could be required to obtain a license from the professional sports organizations to print box scores, and baseball card companies would have to obtain permission from Major League Baseball to list batting averages, earned run averages and other statistics on players' cards. The PTO received 700-800 comments on the sports statistics issue alone, Love said." *Database Protection Plan Defeated in Geneva, But it May Return in 1997* Software Law Bulletin January 1997 at 8; Jonathan Gaw, *Locked up?; Databases are focus in debate over intellectual Property* Star Tribune, December 1, 1996 at 1D; David Post, *Trying to Stake a Claim on Information* The Recorder, 4, February 27, 1997.

³⁷ The Administration's proposed implementing legislation for the 1996 WIPO Copyright and Performances and Phonograms Treaties (H.R. 2281/ S. 1121) should be compared with an alternative statutory implementing scheme (S. 1146) which does not attempt to read the White Paper's version of the law into the language of the treaty.

³⁸ See James Boyle, *Intellectual Property Policy On-Line: A Young Person's Guide* 10 HARVARD JOURNAL OF LAW AND TECHNOLOGY 47, 58-110 (1996) and sources cited there. This tendency is to be contrasted unfavourably with the most thoughtful defense of the White Paper -- which argued that its protections would be necessary to put "cars on the Information superhighway" but was careful to acknowledge that some of the White Paper's legal theories were controversial, and then to defend them on their own terms rather than to offer them as propositions so obvious they needed no defense. Jane C. Ginsburg, *Putting Cars on the "Information Superhighway": Authors, Exploiters and Copyright in Cyberspace*, 95 COLUM. L. REV. 1466, 1476 (1995) [E.G. defending White Paper's embrace of the RAM copy theory but pointing that this approach has been "questioned or even strongly criticized"]; See also Jessica Litman, *The Exclusive Right to Read*, 13 CARDOZO ARTS & ENT. L. J. 29 (1994).

and for privacy.³⁹ Defenders of the White Paper have argued that its proposals are necessary to protect content on, and encourage fuller use and faster growth of, the Net.⁴⁰

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V

THE ANALOGY TO ENVIRONMENTALISM

Assume for a moment the need for a politics of intellectual property. Go further for a moment, and accept the idea that there might be a special need for a politics to protect the public domain. What might such a politics look like? Right now, it seems to me that, in a number of respects, we are at the stage that the American environmental movement was at in the 1950's. There are people who care about issues we would now identify as "environmental" -- supporters of the park system, hunters, birdwatchers and so on. (In the world of intellectual property we have start-up software engineers, libraries, appropriationist artists, parodists, biographers, biotech researchers etc.) There are flurries of outrage over particular crises -- burning rivers, oil spills. (In the world of intellectual property, we have disconnected stories about Microsoft's allegedly anti-competitive practices, the problematic morals of patenting human genes, the propriety of using copyright to shut down certain critics of the Church of Scientology.) Lacking, however, is a general framework, a set of analytical tools with which issues should -- as a first cut -- be analysed, and as a result a perception of common interest in apparently disparate situations -- cutting across

³⁹ See David Post, *New Wine, Old Bottles: The Case of the Evanescent Copy*, AM. LAWYER, May 1995; Niva Elkin-Koren, *Copyright Law and Social Dialogue on the Information Superhighway*; Pamela Samuelson, *Legally Speaking: The NII Intellectual Property Report*, COMMUNICATIONS OF THE ACM, December 1994, at 21. *The Case Against Copyright Liability of Bulletin Board Operators*, 13 CARDOZO ARTS & ENT. L.J. 345 (1995). Evan St. Lifer and Michael Rogers, *NII White Paper Has Librarians Concerned About Copyright*, LIBRARY JOURNAL NEWS, Oct. 1, 1995. Vic Sussman, *Copyright Wrong*, U.S. NEWS & WORLD REPORT, Sept. 18, 1995; Andrea Lunsford & Susan West Schantz, *Who Should Own Cyberspace*, COLUMBUS DISPATCH, Mar. 26, 1996; Many of these points were also made in testimony. *Intellectual Property and the National Information Infrastructure: Public Hearing Before the White House Information Infrastructure Task Force*, Sept. 22, 1994 (testimony of Jessica Litman, Professor of Law, Wayne State Univ.). [gopher://sunbird.usd.edu:70/11/Academic%20Divisions/School%20of%20Law/NII%20Working%20Group%20on%20Intellectual%20Property/Testimony Comments of Professor Mary Brandt Jensen, August 26th 1994.](http://sunbird.usd.edu:70/11/Academic%20Divisions/School%20of%20Law/NII%20Working%20Group%20on%20Intellectual%20Property/Testimony%20Comments%20of%20Professor%20Mary%20Brandt%20Jensen,%20August%2026th%201994) [gopher://sunbird.usd.edu:70/00/Academic%20Divisions/School%20of%20Law/NII%20Working%20Group%20on%20Intellectual%20Property/Comments/Comments%20of%20Professor%20Mary%20Brandt%20Jensen](http://sunbird.usd.edu:70/00/Academic%20Divisions/School%20of%20Law/NII%20Working%20Group%20on%20Intellectual%20Property/Comments/Comments%20of%20Professor%20Mary%20Brandt%20Jensen) *Comments of Professor Neil Netanel and Professor Mark Lemley, University of Texas School of Law, September 2, 1994.* [gopher://sunbird.usd.edu:70/00/Academic%20Divisions/School%20of%20Law/NII%20Working%20Group%20on%20Intellectual%20Property/Comments/Comments%20of%20Profs.%20Neil%20Netanel%20and%20Mark%20Lemley](http://sunbird.usd.edu:70/00/Academic%20Divisions/School%20of%20Law/NII%20Working%20Group%20on%20Intellectual%20Property/Comments/Comments%20of%20Profs.%20Neil%20Netanel%20and%20Mark%20Lemley)

⁴⁰ Jane C. Ginsburg, *Putting Cars on the "Information Superhighway": Authors, Exploiters and Copyright in Cyberspace*, 95 COLUM. L. REV. 1466 (1995).

traditional oppositions. (Hunter vs. Birdwatcher, for example.)⁴¹ What kinds of tools are we talking about?

Crudely speaking, the environmental movement was deeply influenced by two basic analytical frameworks. The first was the idea of ecology; the fragile, complex and unpredictable interconnections between living systems. The second was the idea of welfare economics -- the ways in which markets can fail to make activities internalise their full costs. The combination of the 2 ideas yielded a powerful and disturbing conclusion. Markets would *routinely* fail to make activities internalise their own costs, particularly their own environmental costs. This failure would, *routinely*, disrupt or destroy fragile ecological systems, with unpredictable, ugly, dangerous and possible irreparable consequences. These two types of analysis pointed to a *general* interest in environmental protection and thus helped to build a large constituency which supported governmental efforts to that end. The duck-hunter's preservation of wetlands as a species habitat turns out to have wider functions in the prevention of erosion and the maintenance of water quality. The decision to burn coal rather than gas for power generation may have impacts on everything from forests to fisheries.

Of course, it would be silly to think that environmental policy was fuelled only by ideas rather by more immediate desires. As William Ruckelshaus put it, "With air pollution there was, for example, a desire of the people living in Denver to see the mountains again. Similarly, the people living in Los Angeles had a desire to see one another."⁴² (Funnily enough, as with intellectual property, changes in communications technology also played a rôle. "In our living rooms in the middle sixties, black and white television went out and color television came in. We have only begun to understand some of the impacts of television on our lives, but certainly for the environmental movement it was a bonanza. A yellow outfall

⁴¹ Although this may be an oversimplification, it does not seem to be a *controversial* oversimplification. "First, the basic analytical approach and policy values underlying environmental law came from a fundamental paradigm shift born of Rachel Carson in 1961, perhaps assisted unwittingly by Ronald Coase, redefining the scope of how societal governance decisions should be made. What we might call the Rachel Carson Paradigm declared that, although humans naturally try to maximize their own accumulation of benefits and ignore negative effects of their actions, a society that wishes to survive and prosper must identify and take comprehensive account of the real interacting consequences of individual decisions, negative as well as positive, whether the marketplace accounts for them or not. Attempts to achieve such expanded accountings, as much as anything, have been the common thread linking the remarkable range of issues that we call environmental law." Zygmunt J.B. Plater, *From the Beginning, a Fundamental Shift of Paradigms: a Theory and Short History Of Environmental Law* 27 LOY. L.A. L. REV. 981-2 (1994). See also RACHEL CARSON, *SILENT SPRING* (1961) I would replace Coase by Pigou, and mention Leopold as well as Carson, but otherwise agree. Focusing on Leopold also has another beneficial effect. It emphasises the extent to which environmentalism was driven in addition by a belief that the economic valuation, and "commodification," of environmental resources was not only incomplete but actually *wrong*. See A. LEOPOLD, *A SAND COUNTY ALMANAC* (1949).

⁴² William D. Ruckelshaus, *Environmental Protection: A Brief History of the Environmental Movement in America and the Implications Abroad*, 15 ENVTL. L. J. 455, 456 (1985).

flowing into a blue river does not have anywhere near the impact on black and white television that it has on color television; neither does brown smog against a blue sky.”⁴³)

Nevertheless, the ideas I mentioned, ecology and welfare economics, were extremely important for the environmental movement. They helped to provide its agenda, its rhetoric and the perception of common interest underneath its coalition politics. Even more interestingly, for my purposes, those ideas -- which began as inaccessible, scientific or economic concepts, far from popular discourse -- were brought into the mainstream of American politics. This did not happen easily or automatically. Popularising complicated ideas is hard work. There were brilliant books like *Silent Spring* and *A Sand County Almanac*, television discussions, documentaries on Love Canal or the California kelp beds, op-ed pieces in newspapers and pontificating experts on TV. Environmental groups both shocking and staid played their part, through the dramatic theatre of a Greenpeace protest, or the tweety respectability of the Audubon society. Where once the idea of “The Environment” (as opposed to ‘my lake’, say) was seen as a mere abstraction, something that couldn’t stand against the concrete benefits brought by a particular piece of development, it came to be an abstraction with both the force of law and of popular interest behind it.

To me, this suggests a strategy for the future of the politics of intellectual property. In both areas, we seem to have the same recipe for failure in the structure of the decision-making process. Decisions in a democracy are made badly when they are primarily made by and for the benefit of a few stake-holders (land-owners or content providers). It is a matter of rudimentary political science analysis or public choice theory to say that democracy works badly when the gains of a particular action can be captured by a relatively small and well-identified group while the losses -- even if larger in aggregate -- are low-level effects spread over a larger, more inchoate group. (This effect is only intensified when the transaction costs of identifying and resisting the change are high.)

An example may be helpful; Think of the costs and benefits of power-generation that produces acid rain or -- less serious, but surely similar in form -- the costs and benefits of retrospectively increasing copyright term limits on works for which the copyright had already expired, pulling them back out of the public domain. In both cases, a narrow “private property analysis” fails to show the true costs involved. In both cases, the costs of the action are spread out over many people while the benefits redound mainly to a few, easily identified and well-organised groups. There are obvious benefits to the heirs and assigns of authors whose copyright has expired, in having the Congress put the fence back up around this portion of the intellectual commons.⁴⁴ There are obviously *some* costs -- for example, to education and public debate -- in not having multiple, competing low cost

⁴³ Id.

⁴⁴ Although it is beyond me how retrospective, and even post-mortem, copyright term extension is to be squared with the idea that intellectual property rights should be given only when they will stimulate the production of new work; barring the idea of sooth-saying or other-worldly communication, the incentive effects would seem to be small.

editions of these works. But these costs are individually small and have few obvious stakeholders to represent them.

There are other, more context-specific, problems. Both environmental disputes and intellectual property issues are seen as “technical,” which tends to inhibit popular participation. In both areas, opposition to expansionist versions of stakeholders’ rights can be off-puttingly portrayed as a stand “against private property.” This is a frequent claim in intellectual property disputes, where defenders of the public domain are portrayed as “info-commies” or enemies of “the free market.” (The latter is a nicely ironic argument to make in favour of a state licensed monopoly.) Indeed, the resurgence of a non-positivist, property owners takings jurisprudence in the Supreme Court seems to indicate that this idea still has great force even in the environmental area.

Beyond the failures in the decision-making process, lie failures in the way that we think about the issues. The environmental movement gained much of its persuasive power by pointing out that there were structural reasons that we were likely to make bad environmental decisions; a legal system based on a particular notion of what “private property” entailed, and an engineering or scientific system that treated the world as a simple, linearly related set of causes and effects. In both of these conceptual systems, the environment actually *disappeared*; there was no place for it in the analysis. Small surprise then, that we did not preserve it very well.

I have argued here that the exactly same the same thing is true about the current *intellectual* property system and its lack of concern for the public domain. The structure of our property rights discourse tends to undervalue, the public domain, failing to make actors and the society as a whole “internalize” the losses caused by the extension and exercise of intellectual property rights. The fundamental aporia in economic analysis of information issues, the source-blindness of an “original author” centered model of property rights, and the political blindness to the importance of the public domain as a whole (not “my lake,” but “The Environment”) all come together to make the public domain disappear, first in concept and then, increasingly, as a reality.

I have said all of this in an attempt to show that there is something larger going on under the *realpolitik* of land grabs by Disney and campaign contributions by the Recording Industry of America. But it would be an equal and opposite mistake to think that the problems I describe here could be corrected merely by fine-tuning a dysfunctional discourse of intellectual property. Ideas alone cannot do the job. In this part of the analysis, too, the environmental movement offers some useful practical reminders. The ideas of ecology and environmental welfare economics were important, but one cannot merely write a *Silent Spring* or a *Sand County Almanac* and hope that the world will change. Environmentalists piggy-backed on existing sources of conservationist sentiment -- love of nature, the national parks movement, hikers, campers, birdwatchers. They built coalitions between those who might be affected by environmental changes. They even discovered, though very slowly, the reality of environmental racism.

Some of these aspects, at least, could be replicated in the politics of intellectual property. The coalitions developed to combat the White Paper and its implementing

legislation, offers some nice examples of the possibilities and pitfalls.⁴⁵ Other strategies also come to mind. For environmental problems, some of the transaction costs of investigation and political action are overcome through expert agents, both public and private. I pay my taxes to support the EPA or my charity dollars to Greenpeace, and hope they do a good job of tracking environmental problems. (In the latter case, I know at least that the makers of Zodiac rubber boats will be given a boost.) Until very recently, there was not a single public or private organisation whose main task was to protect and preserve the public domain.⁴⁶ If the environmental analogy suggests anything, it is the need for a reciprocal connection between analysis and activism.

CONCLUSION

I have argued that the idea of an information age is indeed a useful and productive concept, that there is a homologizing tendency for all “information issues” to collapse into each other as information technology and the idea of “information” move forward in reciprocal relationship. The range of information issues expands and the value of the “message” increases, at least in comparison to the diminishing marginal cost of the medium. This expansion, in turn, gives greater and greater importance to intellectual property. Yet despite its astounding economic importance and its impact on everything from public education to the ownership of one’s own genetic information, intellectual property has no corresponding place in popular debate or political understanding; The belief seems to be that information age politics means fighting censorship on the Web *too*.

Apart from the normal presumption in favour of informed democratic participation in the formation of entire property regimes, I argued that there are particular reasons why this comparative political vacuum is particularly unfortunate. Drawing on some prior work, I claimed that our intellectual property discourse has structural tendencies towards over-protection, rather than under protection. To combat that tendency, as well as to prevent the formation and rigidification of a set of rules crafted by and for the largest stakeholders, I argued that we need a politics of intellectual property. Using the environmental movement as an analogy, I pointed out that a successful political movement needed both a set of (popularisable) analytical tools and coalition built around the more general interests those tools revealed. Welfare economics and the idea of ecology showed that “the environment” literally disappeared as a concept in the analytical structure of private property claims, simplistic “cause and effect” science, and markets that do not force the internalisation of negative externalities. Similarly, I claimed the “public domain” is disappearing, both conceptually and literally, in an intellectual property system built around the *interests* of the

⁴⁵ For details of the various coalitions involved, see Boyle, *Intellectual Property Policy Online* *supra* note ___ and <http://www.dfc.org>, the home page of the Digital Future Coalition.

⁴⁶ During the writing of this article, the first public interest organisation devoted to the preservation of the public domain -- The Union for the Public Domain -- was founded and started work lobbying on some of the issues mentioned here. See <http://www.public-domain.org/>

current stakeholders and the *notion* of the original author, around an over-deterministic practice of economic analysis and around a “free speech” community that is under-sensitized to the dangers of private censorship. In one very real sense, the environmental movement *invented* the environment so that farmers, consumers, hunters and birdwatchers could all discover themselves as environmentalists. Perhaps we need to *invent* the public domain in order to call into being the coalition that might protect it.⁴⁷

Is the analogy between “negative externalities” in the environmental and the intellectual property field, of only rhetorical or strategic value, then? As with the environment, an economic approach is both powerful and partial: Powerful, because economic arguments will sometimes convince when more frankly moral appeals are rejected. It has undeniable force to point out that even under a purely instrumental economic analysis, maximalist intellectual property protection has profound negative effects. Just as the idea of “activities internalising their full costs” galvanised and then began to dominate environmental discourse, the economic inadequacy of current intellectual property discourse has been emphasised by skeptics.⁴⁸ But the attraction of the economic analysis conceals a danger. The problems of efficiency, of market oligopoly and of future innovation are certainly important ones, but they are not the *only* problems we face. Aldo Leopold expressed the point presciently nearly fifty years ago in a passage entitled “Substitutes for a Land Ethic.”

One basic weakness in a conservation system based wholly on economic motives is that most members of the land community have no economic value... When one of these non-economic categories is threatened, and if we happen to love it, we invent subterfuges to give it economic importance... It is painful to read those circumlocutions today.⁴⁹

Leopold’s point is blunted, but not lost in the context of intellectual property. The very real negative economic effects of over-protection are hardly “circumlocutions.” Locking up facts under a *sui generis* database right would introduce colossal economic inefficiencies into the flow of information to markets, research and innovation. There are obvious economic problems with our current treatments of “sources” of genetic information. Many of the proposals for “reforming” copyright on the net, amount to little more than a short-sighted state protectionism of old methods of delivering content. Not mere circumlocution then. But under Leopold’s gentle chiding I am reminded of the dangers of embracing too closely a language that can express only some of the things that you care about. True, our intellectual property system would be better if we paid more attention to the negative externalities produced by the grant and exercise of each new property right, instead of

⁴⁷ For a path-breaking formulation see David Lange, *Recognizing the Public Domain*, 44 LAW AND CONTEMP. PROBS. 147 (1981). I have also been influenced by Jessica Litman’s work on the subject.

⁴⁸ This economic skepticism links works otherwise very different in tone. Compare Stephen Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies, and Computer Programs*, 84 HARV. L. REV. 281 (1970); Pamela Samuelson, *The Copyright Grab* WIRED 4.01 (1996); Boyle, SHAMANS *supra*.

⁴⁹ Aldo Leopold, A SAND COUNTY ALMANAC 210-211 (1949).

focusing monomaniacally on the problems posed by public goods. But our concerns with education and the distribution of wealth, with free speech and universal access to information, can never be fully expressed the language of neo-classical price theory.

Let me conclude by dealing with two particular objections to my thesis here. First, that my whole premise is simply wrong; intellectual property is not out of balance, the public domain is not systematically threatened, economic analysis is both determinate and clear in supporting the current regime, the general tendency both internationally and domestically has not been towards the kind of intellectual land-grab I describe, or -- if it has -- the tendency exists for some very good reasons. Elsewhere I have tried to refute those claims but to some extent the point is moot. Even if I was wrong, the basic idea of democratic accountability over public disposal of *extremely* valuable rights would seem to demand a vastly more informed politics of intellectual property in the information age. If such accountability is to exist, the public domain should be more systematically discussed and defended than has heretofore been the case.

The second objection is more fundamental. How can I compare the politics of intellectual property to the politics of the environment? For some, the difference in seriousness of the two problems robs the analogy of its force. After all, environmental problems could actually destroy the biosphere and this is just..., well, intellectual property. My response to this is partly that this is *an analogy*. I am comparing the form of the problems rather than their seriousness. Still, I have to say I believe that part of this reaction has to do with a failure to adjust to the importance that intellectual property has and is going to have in an information society. Again and again, one meets a belief that this is a technical issue with no serious human, political or distributional consequences. This belief, frankly, is just silly. As I have tried to show here, our intellectual property regime has enormous importance in terms of distributional justice, free speech and public debate, market concentration, scientific research, education, bioethics... the list goes on and on. Intellectual property is important, then, but our decision-making process does not reflect that fact. Right now, there is an easily described tendency in the world of intellectual property -- rights are expanding by the moment, generally unchecked by public scrutiny or sophisticated analysis.

The picture is not entirely bad. There are court and regulatory decisions that cut against the protectionist tendency I have described. Recent organising efforts around Net, cultural property, pharmaceutical and fair use issues have improved the discourse markedly. The sheer stupidity of the database treaty had a powerfully bracing effect -- baseball or no baseball. Nevertheless, I think that the current situation is enough to warrant what one might call precautionary alarmism. It would be a shame for the fundamental property regime of the information economy to be constructed behind our backs. We need a politics -- an analytically and rhetorically sophisticated political economy -- of intellectual property and we need it now.

Boyle, Cruel, Mean or Lavish?

Cruel, Mean or Lavish?
Economic Analysis, Price Discrimination and Digital Intellectual Property

James Boyle (c) 2000

It is not because of the few thousand francs which would have to be spent to put a roof over the third-class carriage or to upholster the third-class seats that some company or other has open carriages with wooden benches . . . What the company is trying to do is prevent the passengers who can pay the second-class fare from traveling third class; it hits the poor, not because it wants to hurt them, but to frighten the rich . . . And it is again for the same reason that the companies, having proved almost cruel to the third-class passengers and mean to the second-class ones, become lavish in dealing with first-class customers. Having refused the poor what is necessary, they give the rich what is superfluous.' Emile Dupuit, "On Tolls and Transport Charges" *Annales des Ponts et Chaussées* 2d ser (1849) at 23.

Introduction:

This is an essay about economic analysis, price discrimination and the world of digital content.¹ In the interests of full disclosure, I should warn the reader that I will take a slightly different attitude towards the economic analysis of intellectual property than most, though perhaps not all, of the contributors to this fascinating symposium issue; I will be focusing on economic analysis as a type of rhetoric. By rhetoric, I do not mean bluster, nor do I mean to suggest that economic analysis is merely a

¹ Two bodies of work deserve particular acknowledgment as inspirations for this essay. First, the writings of Hal Varian on differential pricing for information goods. Hal R. Varian, *Differential Pricing and Efficiency* (Aug. 5, 1996), available in *First Monday* (visited Aug. 2, 2000) <<http://www.firstmonday.dk/issues/issue2/different/>>; Hal R. Varian, *Versioning Information Goods* (Mar. 13, 1997), (visited Aug. 2, 2000) <<http://www.sims.berkeley.edu/~hal/people/hal/papers.html>>; Hal R. Varian, *Pricing Information Goods* (June 15, 1995), (visited Aug. 2, 2000). <<http://www.sims.berkeley.edu/~hal/people/hal/papers.html>>. Second, William Fisher's influential article on price discrimination and the responses to it. William W. Fisher III, *Symposium on the Internet and Legal Theory: Property and Contract on the Internet*, 73 CHI.-KENT. L. REV. 1203 (1998); Wendy J. Gordon, *Symposium on the Internet and Legal Theory: Intellectual Property as Price Discrimination: Implications for Contract*, 73 CHI.-KENT. L. REV. 1367 (1998); Julie Cohen, *The Perfect Curve* (Vanderbilt editors please supply); Yochai Benkler, (Vanderbilt editors please supply.) I should note that Professor Fisher's article has as its goal using the lure of the profits available from state-backed price discrimination to induce the content industries to accept limitations on their rights in the public interest. Thus, though some of my criticisms would apply to the efficiency and innovation benefits he claims for price discrimination, his work runs counter to the expansionist intellectual property agenda I describe here.

form of apologetics for conclusions arrived at for other reasons.² I use the term “rhetoric” in a way closer to one of its positive classical senses: something between Aristotle’s deliberative rhetoric and the looser sophistic concept, a way of interpreting and understanding “an incomplete, ambiguous and uncertain world.”³ Thus, to focus on economic analysis as a form of rhetoric is not an insult to economic analysis, though it is a signal that I think that the answers it provides are more partial, in both senses of that word, and more indeterminate than many economists and most policy-makers seem to believe. In particular, I will be focusing in this essay on the way in which some of the most important issues in digital intellectual property policy are decided by a pre-reflective process of categorization from which the analysis flows. Information economics as a discipline does indeed enlarge our understanding of some very important intellectual property questions, but I believe that the answers it offers are, on both empirical and theoretical grounds, much more open than is generally accepted. Indeed one of its main contributions may be in offering us plot-lines and econo-dramas, ready-made images of types of dysfunction in information markets that sharpen our perceptions of potential risks and benefits. Unfortunately, it tends to offer them in antagonistic and mutually annihilating pairs.

Three further caveats are in order. To say all of this is not to say that the economic analysis of information issues is *perceived* by economists as having the open-ness and manipulability that I describe

² That is sometimes true of any form of analysis, of course. In intellectual property policy, the Congressional Record is particularly full of dubious economic studies: odes to the importance of providing incentives to the dead and supposedly scientific lists of reasons why the policy predilections of content providers must necessarily be enacted as law. Yet such a characterization hardly describes the erudite and frequently critical account of the implications of economic analysis for intellectual property offered in this volume. More generally, those forms of economic analysis that measure social welfare in terms of ability and willingness to pay, certainly have an apologetic aspect, though perhaps not an apologetic intent; absent a justification for the initial distribution of rights and wealth, their analyses both track and reinforce existing institutions and patterns of wealth distribution and do so without a normative reason for us to think that such a result is good. Under Chicago school analysis, for example, rights are given to those who are willing and able to pay the most for them, prior wealth increases one’s ability to pay and thus one’s utility, higher valuations which result from greater wealth (at least in consumptive, rather than productive valuations of assets) will make it more likely that one will be granted rights, and hence still greater ability to pay in the future. See C. Edwin Baker, *The Ideology of the Economic Analysis of Law*, 5 J. PHIL. & PUB. AFF. 3 (1975). It is irresistible to note also that the Chicago school’s preferred criminal justice system seems to be one where those who can afford it pay fines rather than suffering prison terms. Thus it is *literally true* to say that under a Chicago school analysis, “the rich will get richer and the poor will get prison.” While there are many kinds of economic analysis, most but not all rely on the “ability and willingness to pay” measure.

³ Sonja K. Foss et al., *Contemporary Perspectives on Rhetoric* 3 (2d ed. 1991); See also George A. Kennedy, *A New History of Classical Rhetoric* (1994); James B. White, *Law as Rhetoric, Rhetoric as Law: The Arts of Cultural and Communal Life*, 52 U. Chi. L. Rev. 684, 687-88 (1985).

here. Indeed, quite the opposite is true, though I would argue that the source of that certainty has to be sought outside the walls of the discipline itself in less obvious and less scientific processes of classification. Nor is it to say that the consensus among real, as opposed to law-office, economic analysts of intellectual property always aligns with a particular set of economic interests or market institutions; readers will find in this volume a large number of criticisms of both the current agenda of the content industries, and considerable skepticism that the existing institutions of world trade actually offer the benefits to the developing world claimed for them by their defenders. Finally, though I argue that economic analysis is both more open and more indeterminate than some of its practitioners seem to believe, not all viewpoints are equally easy to express in economic rhetoric,⁴ nor is all economic rhetoric equally pleasing to the public ear.

Having said all of this, I hasten to add that economically-minded readers impatient with such folderol about rhetoric should find my discussion perfectly conventional in most of its analysis; the only way to make my point is internally, within the structure I am describing.

Economic Rhetoric and Intellectual Property:

The question I wish to study could be put crudely like this; will the economic analysis of price discrimination provide the new economic rhetoric to justify the next stage of intellectual property expansionism in the United States? Over the last twenty years, there has been an enormous extension of intellectual property; a far-ranging enclosure movement over the public domain, paralleling the eighteenth century's enclosure of common lands. Intellectual property rights have been broadened to cover more subjects, deepened to cover them for a longer time, widened to cover them in more ways. Current law is actually nibbling at the two areas that supposedly could never be owned, facts and ideas respectively.⁵ Given the inventiveness of the lawyers and lobbyists for the holders of intellectual property, this may seem like an unwise challenge to issue, but at a certain point they will run out of commons to enclose. Alexander is reported to have wept when he found had no new worlds to conquer. Jack Valenti and Hilary Rosen are unlikely to do the same. Where will they turn when they run out of new areas to commodify and how will they justify themselves to policy makers and to the public?

The plan is fairly easy to work out. After claiming new, larger and longer intellectual property rights, the next step is to engage in much more fine-grained regulation of how that intellectual property can be used, relying on shrinkwrap contracts and technological restraints to strip users of the standard

⁴ "When one of these non-economic categories is threatened, and if we happen to love it, we invent subterfuges to give it economic importance... It is painful to read those circumlocutions today." Aldo Leopold, *A SAND COUNTY ALMANAC* 210-211 (1949).

⁵ See Collections of Information Antipiracy Act, H.R. 354, 106th Cong. (1999); Collections of Information Antipiracy Act, H.R. 2652, 105th Cong. (1998); Database Investment and Intellectual Property Antipiracy Act of 1996, H.R. 3531, 104th Cong. (1996); *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

rights offered by intellectual property systems -- the right of fair use, first sale and so forth. Software, music, e-texts, and movies will be licensed rather than sold to users, thus some of the privileges people take for granted with a book -- the ability to lend it, resell it, criticize it, parody it and so on -- will be explicitly waived by contract.⁶ Technological encryption and watermarking schemes will be used to tie digital objects to particular people and computers, so that there are physical as well as legal restraints on their use of those objects. These schemes will prevent (or at least hamper) not only black market “piracy” of intellectual property, but “gray market” resale, non-market gift or loan transactions and competitive attempts at decompilation and reverse engineering.

The creation of new, or extension of old, intellectual property rights requires state intervention. Yet many of the measures I have just described sound as though they could be achieved by private parties acting alone; rewriting contracts, changing encryption schemes and so forth. Of course, the legal system would still be strongly implicated because the rules of contract and property would form the background to the transaction. But is a rule change, rather than merely rule enforcement, required to achieve this level of control of both goods and users after the initial market transaction? The answer is yes. Many things stand in the way of the measures I have described. Contracts of adhesion are sometimes unenforceable under current law. State law rules affecting intellectual property rights might be pre-empted by Federal copyright and patent law. Antitrust rules affect the ability of companies to engage in resale price-maintenance agreements. Privacy protections might interfere with companies’ ability to monitor the use of their products. Fair use gives privileges to decompile software for competitive purposes and so on. The progress of surmounting these “obstacles” has already begun with the Digital Millennium Copyright Act,⁷ the model Uniform Computer Information Transactions Act (UCITA) and a variety of court decisions, but it still has some way to go. How will the content providers move from persuading the legislature to grant them new property rights over information goods, to persuading the legislature to facilitate their ability to control those products in the after-market?⁸

To answer this question I want to start with a thought experiment. Imagine a world very like our own except for the fact that economists have much greater power and respect. Call it Econo-World. Public debate there is almost exclusively in economic terms and the level of sophistication is high.

⁶ Whether those contracts will be enforceable is another matter and a problematic one, bringing up constitutional issues of preemption and first amendment protection. Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. Cal. L. Rev. 1239, 1248-53 (1995). The current trend has been towards the enforceability of such contracts. *Symposium, Intellectual Property and Contract Law in the Information Age: The Impact of Article 2B of the Uniform Commercial Code on the Future of Transactions in Information and Electronic Commerce*, 13 BERKELEY TECH. L.J. 809 (1998); but it has been much criticized.

⁷ Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2877 (1998).

⁸ Obviously, in any Hohfeldian analysis the two stages overlap. What do we mean by “property right”? Still, the distinction captures something important.

Lobbyists make careful economic arguments, (rather than straightforward economic *payments*) to a respectful legislature eager to wrestle with the fine details of the analysis. Imagine also, that the arguments come in two stages. First, lobbyists come to the legislature asking for new, increased intellectual property protection, relying in part on the threats posed by the new digital technologies and the Internet in particular. Second, having been granted at least some of their wishes, they return to ask the legislature to relax those rules that interfere with their ability to control intellectual property goods in the after-market: to validate contracts of adhesion and shrink-wrap licenses, declare that it is a crime or at least a tort to break through a digital fence even if your conduct was otherwise privileged, to allow resale price-maintenance agreements, limit fair use, abolish first sale and so on.

The economic analysis used to justify the first stage is familiar, though much more controversial in practice than many policy-makers seem to understand. The argument goes something like this. Information is a public good, non-excludable and non-rival. It is hard to stop one unit from satisfying an infinite number of users at zero or close to zero marginal cost. Under such conditions producers of information and information goods will have inadequate incentives, leading to under-production. If I could create a useful digital restaurant guide at great expense but can sell only one copy before my whole market disappears then I will hardly make the effort in the first place. The solution to this public goods problem is intellectual property. By creating a limited monopoly called an intellectual property right, we can give producers an adequate incentive to create. This basic argument has been used again and again to justify the creation and then the extension of the intellectual property system; new media such as the Internet are claimed to take content even closer to the image of a perfect public good, because costless copying and global networks mean that the software, digital text or music in question is even less excludable and even less “rival.” I don’t even have to give up my book or movie for the time that it would have taken to duplicate it; digital objects already reside on a global network. As the subjects of intellectual property approach asymptotically to being perfect public goods, goes the argument, so must intellectual property protection increase in strength.

Though this argument is paraded in both economic textbooks and congressional testimony, it turns out that things are not so simple at either the theoretical or the empirical level. After all, an intellectual property right is a monopoly, is it not?⁹ Economists normally think of monopolies as imposing deadweight losses.¹⁰ So at the very least one might expect some skepticism that the benefits in terms of encouraging innovation and the production of information goods would be offset by the costs of the monopoly. When one goes deeper it turns out that the issue is even more complicated. *F i r s t*, economists such as Grossman and Stiglitz point out that there is a fundamental conflict between the incentives needed to produce information and the efficiency with which that information is disseminated. In an article entitled “On the Impossibility of Informationally Efficient Markets” they point out that the

⁹ This point is disputed, as we will see later. *See* text accompanying note ____.

¹⁰ Under standard assumptions the monopolist will receive the greatest return by pricing at a level which excludes a part of the market that is willing and able to pay above marginal cost for the product.

marginal cost of information is zero, but if information is distributed at zero cost, as required in an efficient market, producers will not have an adequate incentive. On the other hand, if information producers *are* rewarded, information is not costless and market decisions made using that information cannot be perfectly efficient. Since the cybernetic self-organizing rationality of markets depends precisely on the distributed analytical processing power of market participants who digest information and make choices accordingly, this point is of central importance. It seems to suggest that the idea of a perfect market in information is internally contradictory even in theory. It lends new force to the idea that monopolies over information and information goods may lead to dynamic inefficiencies, as well as merely to the normal passive welfare losses associated with monopoly pricing. In practice it also helps to explain a fundamental difference in economic outlook. Certain individuals and even certain organizations,¹¹ seem to approach economic issues with particular sensitivity to the public goods problems I described above. They focus on the necessity of ensuring adequate incentives, and tend to minimize or ignore both the welfare losses involved in monopoly pricing and the possible costs to efficiency and innovation. Other individuals and organizations are more focused on efficiency, costless information flows and the dangers of market concentration.¹² To them, *innovation is most likely to suffer when the inputs for innovation are over-priced or monopolistically controlled, than when the outputs of innovation fail to receive legal protection*. Though economics is supposed to be the science of tradeoffs, this theoretical conflict is deeper than merely the need to balance speed with safety or eating pleasure with waistline size. The argument is that informationally efficient markets are impossible *in theory*, and though this claim has been rejected, generally without discussion, it has not yet been refuted. On a more practical level though, one might imagine pragmatic economists judiciously weighing the incentive effects of intellectual property against the possible static and dynamic efficiency costs. This does happen of course, but it is remarkable how fundamentally the choice of starting point seems to affect the analysis. Some who look at fair use, for example, see a limited exception, a defense for actions that otherwise would violate a property right. This defense is instituted largely to avoid the transaction costs of getting permission for every piddling use. The “paradigm case” for fair use here would be quoting a few lines of an article. The increasing efficiency in information systems could make even this limited exception unnecessary by lowering transaction costs: for example by instituting an Internet copyright permissions clearing center. Others see an affirmative privilege on the part of users and future creators, protecting against both the dangers of monopolistic pricing and the dangers that future innovation would be chilled. The paradigm case for fair use here would be something like parody or the privilege of software developers to decompile software in order to assure interoperability. The protagonists of each view rarely ignore the other view *completely*, but the structure of the analysis is built up around opposite pictures of the core problem and of the penumbral issues to be skirted in solving it. The issues do not come ready labeled, and the process of pre-theoretical classification is a

¹¹ The Patent and Trademark Office is a good example. See James Boyle, Intellectual Property Policy Online: A Young Person's Guide, 10 HARV. J.L. & TECH. 47 (1996)

¹² The Justice Department's Antitrust Division's attitude to Microsoft's claims about intellectual property captures this point nicely.

fascinating one. “Balancing” does go on, but it is a balancing the outcome of which has been strongly affected by the way the issue is constructed in the first place.

But even if we focus mainly on the incentives necessary to produce information, applying public goods theory to intellectual property turns out to be a little more complicated. First, what public goods problem are we talking about, the production of information or the production of innovation? Both have some of the characteristics of public goods, they tend to be linked in practice, yet they also have significant differences. Existing intellectual property law protects some of each but in the United States, at least, it is constitutionally focused on originality. In practice, however, that requirement is both minimal and increasingly irrelevant for reasons that I will discuss later.

Beyond the information/innovation question, which would deserve its own article, there are other difficulties. Are the subjects of intellectual property actually “non-excludable”? Indeed is “non-excludability” actually part of the definition of a public good at all?. “Frequently there is confusion between the public good concept as I understand it, which states that it is possible at no additional cost for additional person to enjoy the same unit of a public good, and a different concept that might be identified as a collective good, which imposes the stronger condition that it is *impossible* to exclude non-purchasers from consuming the good.”¹³ Whatever the definition used, in practice it is far from clear that information or information goods are indeed non-excludable, both on and off the Internet.

Information goods do not exist in isolation. The good (the knowledge of how to make a new type of self-developing photographic paper, a software program, the data stream of an unencrypted network TV broadcast) comes “bundled” with a large number of other customer needs, social implications, market effects, and business opportunities. These linked or bundled phenomena may well be excludable to a greater degree than the information good itself. Absent an intellectual property right, the good itself (the invention, say) may be hard to exploit without revealing information about it, and thus potentially losing one’s position of market advantage. But, as Hirshleifer points out, the inventor is in a privileged position in terms of another piece of information -- the effects that the invention will have on the existing industries in the market -- and this piece of information is can be exploited profitably before revelation destroys the market.¹⁴ (For example, by selling short the shares of competing companies whose revenues will decline.) Open source software companies distribute software that can be, and is, freely copied and redistributed by competitors. Nevertheless, they argue that their version comes with a set of associated features (documentation, support lines, assurance of continuity in development) which are much more excludable than the software itself, and which will support a viable business. Admittedly, some imagination may be required. The “product” itself may change so as to take advantage of different degrees of excludability. Consider an example from beyond the boundaries of intellectual property

¹³ Harold Demsetz, *The Private Production of Public Goods*, 13 J. L. & ECON. 293, 295 (1970).

¹⁴ Jack Hirshleifer, *The Private and Social Value of Information and the Reward to Inventive Activity*, 61 AM. ECON. REV. 561 (1971).

policy, broadcast network television. It appears to be a classic public good, non-excludable and non-rival. If one was designing such a business from scratch, one might choose to exclude by technical means (encrypting the signal), by legal means (imposing a licensing tax on television receivers and using the fees gathered to support the television channel), or by changing the business model altogether. It is hard to exclude any viewer with a set from receiving the signal. It is easy, however, to exclude an advertiser's tape from one's broadcast unless one has received adequate payment. By moving the business model from sale of content to viewers, to sale of eyeballs to advertisers, the excludability problem is "solved."

One cannot focus on excludability alone, however. It is important to remember that in the absence of intellectual property there are changes in the economics of both the payment for outputs from, and the cost of inputs into, the creative process. The creator of the information good *may* find that the types of "bundled excludability" that I describe give less leverage, less ability to exclude and therefore less pricing power to demand payment for access than an enforced set of intellectual property rights would give. (Obviously this is an empirical question, not susceptible of purely theoretical resolution.) However, operating in the absence of intellectual property, either in general, or over the particular resource in question, the cost of the inputs for the new creation may well also be lowered. (This, too, is an empirical question.) The creator need not pay as much in licensing fees for the raw materials (database extracts, programming tricks, prior lines of code, cell lines, fragments of prior songs, methods of conducting surgical operations) that are used to create the new product. At the end of the day, do the changes in excludability under the new regime *balanced against* the changes in the costs of inputs, together mean that there is no longer adequate incentive to future creators? Again, it would be strange to imagine that the question could be resolved at the theoretical level, but the debate itself proceeds with hardly any empirical evidence.¹⁵

Since intellectual property is a familiar and accepted part of both our world and Econo-world, these discussions tend to take place against the background of some suggestion that rights should be expanded, normally under the impetus of a perceived threat from some new technology of reproduction or distribution or both. But this merely adds an additional unknown element to the problems discussed above. Take the Internet as an example. The Internet certainly lowers the costs of copying. At the same time, it will lower the costs of distribution and advertising. Even a limited and static assessment of the effects of these changes would have to work out whether the losses to intellectual property owners from

¹⁵ See Pablo Challú et al., *The Consequences of Pharmaceutical Product Patenting*, 15 WORLD COMPETITION 65, 115 (1991); Edwin Mansfield, *Patents and Innovation: An Empirical Study*, 32 MANAGEMENT SCIENCE 173, 174-75 (1986); Bronwyn H. Hall, Rose Marie Ham, *The Patent Paradox Revisited: Determinants of Patenting in the US Semiconductor Industry*, 1980-94, NBER Working Paper 7062 (March 1999); Adam B. Jaffe, *The U.S. Patent System in Transition: Policy Innovation and the Innovation Process*, NBER Working Paper No. 7280 (August 1999); Wesley M. Cohen, Richard R. Nelson, & John P. Walsh, *Protecting Their Intellectual Assets: Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or Not)*, NBER Working Paper No. 7552 (February 2000).

the increased ease of copying were greater or smaller than the benefits from ease of distribution, advertising and reproduction. A more complex assessment would turn to the increased importance of network effects. If your computer is a stand-alone and you rarely exchange files then the fact that most people use Microsoft Word is much less important to you, than if you are on a global network constantly exchanging work with others. Are the losses to Microsoft from the increased ease with which Word could be pirated, greater or lesser than the benefits they get from network effects? We do not know the answer. What will be the effects on innovation of this increase in importance of network effects? Does it argue for greater intellectual property protection or, to the contrary, a removal of protection from any protocol around which standardization could occur? Again, the issue is an extraordinarily complex one.

To be sure, the defenders of intellectual property do not lie quiet during this litany of doubts. Among other things, they argue that intellectual property rights are not monopolies, they are property rights.¹⁶ Most property rights allow owners to refuse to sell even when offered an amount greater than marginal cost. The question of whether a monopoly exists is one that is determined by the availability of substitute goods, not the shape of the legal entitlement. If there are substitute goods available for most intellectual property products, then competition will drive the price closer to marginal cost, and we will not have the static allocative efficiency losses typical of monopoly pricing. This argument is not so persuasive in dealing with the claim that intellectual property rights can also cause dynamic innovation losses, nor does it address the more basic question of whether intellectual property rights are necessary at all in a particular case. Still it does attempt to take the blight of “monopoly” away from the intellectual property right, both in popular discussion and in economic debate. This argument over the question of

¹⁶ “Rights to exclude are not monopolies just because the property involved is an intangible rather than something you can walk across or hold in your hand” Frank H. Easterbrook, *Intellectual Property Is Still Property*, 13 HARV. J.L. & POL’Y 108, 118 (1990); The classic statement is Edmund W. Kitch, *Patents: Monopolies or Property Rights?*, 8 RES. L. & ECON. 31; Edmund W. Kitch, *The Nature and Function of the Patent System*, 20 J.L. & ECON. 265, 274-75 (1977); The degree to which the dynamic innovation issue is addressed varies in the literature. Notice in the following example how the author goes from chiding others for their improper classification to assuming that more patent protection results in greater technological innovation. “Improper categorization of intellectual property rights as monopolies in the negative sense is traceable to the ambiguity surrounding the term “monopoly.” This ambiguity has its roots in English common law, antitrust law and the cyclical judicial hostility toward patents. It has created confusion that has resulted in courts’ crossing the line from ambiguously using the term “monopoly” to affirmatively labeling patent rights as anticompetitive and contrary to the public interest. This judicial mindset increases the likelihood of patents being held invalid during infringement litigation, which negatively impacts patent filings, thereby inhibiting technological innovation and economic growth.” Simone Rose, *Patent “Monopolyphobia”: A Means of Extinguishing the Fountainhead?*, 49 CASE W. RES. L. REV. 509, 527 (1999).

whether intellectual property rights are monopolies will be ironically revisited when we turn to the question of price discrimination.

Let us say though, that our legislators are convinced for the need for expanded intellectual property protection, particularly in the digital arena. Citing the dangers of world-wide piracy, armed with search lists from Gnutella, and file lists from Napster, and clutching reports on the inadequate incentives provided to the compilers of databases, they agree to raise the level of intellectual property rights. Software will be covered by patent as well as copyright, the definition of copying will be broadened, patent law will be applied to cover business methods and mathematical algorithms embodied in software form, trademark expanded beyond its traditional ambit, the copyright term lengthened, civil and criminal penalties increased, new rights created over compilations of facts and so on and so on.¹⁷ To all of these proposals, the government, and slightly less enthusiastically, the courts, agree. The legislature goes into recess and the economists and lobbyists on both sides take a deep breath.

In Econo-world, however, the content industries are relentless in their pursuit of legally guaranteed market advantage. When the next session of the legislature convenes, they return with a new set of demands. They want to argue that is not enough that they be given expanded intellectual property rights. There are still holes in the system after the user has made the contract; perfect control eludes them. The Econo-land legislature has left the “first sale” rule intact so that users could actually sell their programs, e-texts and music once they were finished with them. Digital objects could also be given away. I may no longer want the quilting program, or the Benedictine monks’ a-capella disco highlights. As far as I am concerned, they are just taking up space on my hard drive. In Econo-land, however, I may give them to you, provided I erase them from my hard drive, which is what I wanted to do anyway. Resellers may buy the product from the producer and then resell it at a lower price than the one the producer would like to maintain. All of these aspects of the law interfere with the producer’s ability to achieve the perfect pricing curve,¹⁸ selling to each user at a different price, carefully calculated by tracking users’ purchasing habits and buying practices using “cookies,” credit card reports and other monitoring methods. Users also retain a troubling degree of freedom in other respects. Competitors may buy your products, strip out the uncopyrighted parts, and use them to compete with you.¹⁹ This problem has been partly mitigated by the recent intellectual property reforms in Econo-world, of course, because there are now precious few components of any product that are *not* protected by intellectual property.

¹⁷ See *Collections of Information Antipiracy Act: Hearings on H.R. 2652 Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 105th Cong. (1997) (statement of Laura D'Andrea Tyson) <<http://www.house.gov/judiciary/41118.htm>> (visited Aug. 2, 2000). Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985 (1996); No Electronic Theft Act, Pub. L. No. 105-147, 111 Stat. 2678 (codified as amendments to the Copyright Act of 1976, 17 U.S.C. 101-803.)

¹⁸ Julie Cohen, *The Perfect Curve*, VANDERBILT LAW REVIEW (Vanderbilt eds. Please supply)

¹⁹ *Cf. ProCD v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996).

Technology can also be used to embed identifiers in programs and digital content can be registered to particular users in ways that make it hard to transfer. Contracts can be written which require users to relinquish their rights under intellectual property law. In theory, the user can always go elsewhere, but lack of knowledge about the content of the licenses together with the lock-in exercised by network effects, all operate to make the market less than efficient in that regard. If Microsoft Word requires a particular licensing agreement, telling the user that they can always buy Boyle's word processing software is little consolation.

But the scheme is not yet foolproof. If the content provider builds a digital fence, then users would still have a privilege to break it down in order to exercise their fair use rights. If they broke it down and then violated one of the right-holder's exclusive rights they would, of course, be liable for that violation, but in Econo-world the content owners have not yet been given a legal power to fence off portions of the public domain purely by technologically expressing a wish that users not have access to it.²⁰ As for the licensing contracts, they are of uncertain validity and uneven legal effect because of constitutional pre-emption issues, as well as state law provisions invalidating certain kinds of contracts of adhesion. There are also still occasional annoying, non-derogable, consumer protection guarantees which licenses cannot override. Finally, the growth in availability and sophistication of open source software means that consumers might one day have more of a choice, provided of course that the open source software can achieve interoperability, and thus do most of the things that closed, proprietary software can do, showing DVD movies, for example.²¹

The answer to these flaws is to have the state step in and put its stamp firmly on the content industries' preferred trifecta; expansive intellectual property rights, digital fences and enforceable click-wrap licenses. If it could be made a crime or at least a tort to break through a digital fence, regardless of whether one's purpose was licit or illicit, then technological restraints on use in the after-market would be that much more secure. More importantly, if it could be made a crime to create programs or devices that allowed others to get through the digital fence, then the only the most technically savvy consumers would be able to do so. Think of barbed wire. Ranchers want to use barbed wire to protect their herds, but the wire will enclose not only their lands but portions of the commons. The state can do three things. It can forbid the use of barbed wire. It can allow it, but also allow others to use wire cutters to get through it, punishing them if they rustle cattle but leaving them alone if they merely exercise their free range rights. Finally, it can make it a free-standing tort to cut barbed wire, regardless of one's purpose, and then it can outlaw the production of wire cutters. The content industries pick option three, and they also ask that the rules of contract, intellectual property, antitrust and a variety of other fields be changed so as to allow their preferred set of contractual restraints, resale price maintenance agreements, and so on. One happy result of this regime is that it will also make it harder for "interoperable" open source software to be developed; I can't get my open source software to work with your DVD format without

²⁰ Our world is more advanced than Econo-world in this regard.

²¹ Amy Harmon, *Anarchic E-Commerce; Online Davids vs. Goliaths*, N.Y. TIMES, Aug. 6, 2000, § 4 at 1.

either breaching your licensing agreement or breaking through your digital fence, or both. Thus it has the advantage of maximizing one's control of the existing market and beating off a challenge from a potential future competitor at the same time.

How is all of this to be justified? To be sure, one could point to the same threats from digital piracy that were used to justify the first round of expansion. Again, it could be taken on faith that existing forms of excludability are inadequate, that the extra leakiness of a digitally networked system more than offsets its advantages in lowering the cost of distribution and advertising, that increasing the rights of creators and content providers will produce greater innovation rather than raising the cost of inputs so much that future creation is hampered. Etcetera, etcetera. But this argument is getting a little worn by now. In Econo-world, however, the content industries have a second string to their bow. They turn from the economic analysis of public goods problems to the economic analysis of price discrimination.

Price Discrimination: A Primer

A little background may be helpful for those less familiar with the economics of price discrimination. Imagine a world where the economy consisted of a single supplier of a single good -- Furbies -- and of four young purchasers each with different degrees of willingness and ability to pay. Furbies cost \$10 to produce. The poor child can pay only \$15 for the Furby (though if she were richer, she would pay much more.) The two children of the middling class will pay \$25 each and the rich child would pay \$80. What happens if the supplier has to charge a single price? Selling the Furby at \$15 will result in four customers and revenue of \$60. The manufacturer's profit would be \$20.²² Selling at \$25 each will lead to only three sales as the poor child drops out, unable to bid so high. Yet the revenue is \$75 and the profit \$45.²³ Finally, selling at \$85 will exclude everyone but the rich child, but the manufacturer will receive revenue of \$85 and profit of \$75.²⁴ A rational manufacturer, therefore will price at \$85 and the middle and lower classes will go Furby-less. While economic analysis recognises no exogenously determined right to the Furbied state, it would tell us to focus on the a net social loss produced in this case -- namely the three Furbies that the supplier will not be able to sell, though the purchasers would be willing to offer more than the costs of production. The net social loss is \$35,²⁵

²² Cost of manufacture 4 X \$10 = \$40 Revenue 4 x \$15 = \$60. Profit (\$60-\$40) = \$20.

²³ Cost of manufacture 3 X \$10 = \$30 Revenue 3 x \$25 = \$75. Profit (\$75-\$30) = \$45.

²⁴ Cost of manufacture 1 X \$10 = \$10 Revenue 1 x \$85 = \$85. Profit (\$85-\$10) = \$75. Of course this hypothetical is unrealistic in that there are not economies of scale on production, etcetera, etcetera. The basic point, however, holds true if we shift to a more nuanced hypothetical dealing with marginal utility and marginal cost in which all these factors are included and the reader's eyes correspondingly more weary.

²⁵ i.e. the amount by which the value that the poor and middle class children put on the Furbies exceeds the cost of their production. Value (\$15 + \$25 + \$25) = \$65 Cost of Production = \$30. Under the single pricing schedule, willing buyers cannot purchase though their utility exceeds cost. The resulting
(continued...)

measured here according to the standard assumptions of such analysis -- i.e we measure worth or value individual by individual, reckoning each according to the amount that the individual is willing and able to pay.²⁶

If, however, the supplier a.) was somehow able to identify individual valuations and b.) could charge different prices for each customer, this social loss could be avoided. The poor child would pay \$15, the two middle class kids would pay \$25 each, Richie Rich would fork out his \$85 -- all would get Furbies, the social loss would disappear, and the producer will gain a whopping profit of \$110.²⁷ A happy ending, at least by the standards of economic analysis.

Before we continue, we should also notice the characteristics of the monopoly producer, under perfect price discrimination; most obviously, the producer never makes mistakes in its identification of ability/willingness to pay. (For example, the producer does not make the mistake of selling 4 \$15 Furbies to the poor kid -- "Please sir, I am a poor purchaser and the other 3 are for my humble and equally penurious brothers and sisters" -- only to have this budding arbitrageur turn round and resell to his peers at \$20, repaying his loan from the rich kid and reaping a tidy profit.) Let us take a small step outside the imaginary world I have constructed. Imagine a real-world firm that has some of the characteristics of a monopolist. Take the manufacturer of Furbies, for example. Partly because of a variety of intellectual property rights (trademark, trade dress and perhaps patents) the manufacturer of Furbies is safe from direct competition. I cannot manufacture a competitor doll called a Furby, indeed, depending on the extent of trade dress protection and the extent of the patents on the underlying technology, I may be prevented from making *any* annoying, neotenous, talking furry doll with a "learning program" and a crude voice playback feature. The consumers of Furbies will also insist that there are *no* substitute goods and that the only limit on their parents' *willingness* to pay ought to be parental *ability* to pay. Interestingly, the manufacturer of Furbies actually chose to use a single standard price, for reasons that make the whole analysis more complex, but let us imagine that they want to engage in price discrimination. How are they to do it? One possibility is to increase the difficulty of getting the low cost Furbies -- selling them at inconvenient times in uncomfortable places, so that only the poor child, who

(...continued)

loss is \$65 - \$30 = \$35. Those who find this definition of social loss (particularly in the case of Furbies) to be ludicrous are asked to retain but suspend their skepticism at least until the next footnote, and ideally until later in the paper.

²⁶ As many critics have pointed out, this raises some problems. Thus, for example, the glass of water is "worth" only \$1 to the person dying of thirst whose wallet holds but a single dollar, indeed there would be a social loss of \$3 if we gave him his drink instead of offering it to the slightly overheated rich person who would pay \$4 for it. More important perhaps, economic analysts tend to measure social value by aggregation of individual assessments; the idea of a value where the whole is more than the sum of the parts is hard to develop within this frame of mind.

²⁷ Cost of manufacture 4 X \$10 = \$40 Revenue \$15 + \$25 = \$25 + \$85 = \$150. Profit (\$150 - \$40) = \$110

has no other way to purchase but is willing to spend in time, discomfort and stigma what he lacks in dollars, will buy them there. Another possibility, called “versioning,” is to produce goods with different qualities or features -- a bare bones “pauper’s model,” perhaps, with a mutilated ear and a cough -- a more luxurious Furby of the bourgeoisie, its pelt rich but modest, and a tycoon Furby with a larger vocabulary and a mink coat.

In both of these solutions the producer compensates for its lack of knowledge about the consumer’s ability and willingness to pay by relying on knowledge of the characteristics of the more general classes of purchaser and by using external signs and signifiers to encourage self-selection into the appropriate pricing bracket. In addition the market can be segregated by time, early release at a high price followed by a slow diminuendo designed to capture every combination of eagerness and resources. The methods can even be amalgamated, for example; hardbacks are often issued before paperbacks. Versioning can look perverse; Varian quotes the example of a laser printer aimed at the business market that produced 8 pages per minute. In order to capture the personal computer market, a version was sold with a “wait chip” that reduced its speed to 4 pages per minute.²⁸

When we are talking about “optional” or luxury goods, or about minor differences in functionality or prestige, this process seems beneficial or at worst risible. Of course, when the goods get more necessary and the disparities in wealth distribution (and hence ability to pay) get more acute, the versioning process begins to look less benign, suggesting an underlying problem with the ability/willingness to pay metric of valuation -- at least to those who were not entirely convinced by the basic axioms of the analysis. The quote from Dupuit with which I began this essay captures the process perfectly. “What the company is trying to do is prevent the passengers who can pay the second-class fare from traveling third class; it hits the poor, not because it wants to hurt them, but to frighten the rich.” To be sure, this is a point by no means limited to discussion of price discrimination and if this is the only way to get some important social good to the poor, we may swallow our qualms. What’s more, in the digital realm it is possible that this type of concern will not come up -- perhaps because of the type of products, or the nature of the social interest in the poor having access to those products, or the comparatively minor differences between the high-end good and its low rent cousin. Still, it is worth carrying with us for later the thought that this kind of concern might exist.

So far, the techniques used by monopolists to engage in price discrimination are relatively simple. But there are others, including ones that will be of more importance in the digital world. Imagine our Furby manufacturer again. Apart from versioning, or engaging in temporal segmentation of the market, the Furby manufacturer could use contract or technology as methods to ensure that Furbies do not leak across the price boundary. Buyers could be made to sign a contract saying that they were forbidden from reselling their Furby, or even from giving it away. Furbies could be technologically linked to some characteristic of their owners, perhaps through a retinal or DNA scan, and primed to self

²⁸ CARL SHAPIRO & HAL VARIAN, *INFORMATION RULES: A STRATEGIC GUIDE TO THE NETWORK ECONOMY* (1999).

destruct if they were sold or given away. Furbies could even be constructed so as to engage in self-help if the terms of the contract were being circumvented, perhaps taking the other toys hostage and refusing to release them unless some payment was made. While all of this seems bizarre, if not hallucinatory, these are exactly the kinds of techniques that will increasingly be used by content providers in the digital world. Programs might be tied to unique identifier numbers embedded in software or hardware. Content providers will declare that content is not being “sold,” merely licensed subject to numerous restrictions. Self-help sub routines might be used to encrypt user-files in the event of contractual violation, with the key only being provided on payment of a fee and a return to proper behavior. Digital fingerprints and watermarks will help to identify texts. Encryption will be used to protect programs against decompilation, or to scramble source code so that it cannot be parsed.

Let us say however that through an ingenious use of market research, technological limitation and licensing agreement, the Furby manufacturer manages to sell to each customer at precisely the maximum of his ability and willingness to pay. This is an efficient allocation of resources. Of course, the interesting aspect of this little thought experiment is that it is a story of a monopoly with perfect price discrimination. There are no competitors selling Furbies. What if there were? In a competitive market we would expect the price to move quickly towards the cost of production. All the kids would get their Furbies for \$10.00. Just as before, social loss disappears (there is no Furby-shaped hole at the center of each childish world of preferences) but now all of the \$110 “surplus” (the difference between what the good costs to make and what it is worth to the buyers) is in the pockets of the consumers, not the producer.²⁹ From a standpoint of economic efficiency, this result is just as desirable as the one above. We could be more precise. **Either perfect competition, or monopoly with perfect price discrimination produce an optimal economic outcome. The differences are distributional. Perfect competition moves consumer surplus to the hands and pockets of consumers. Monopoly coupled with perfect price discrimination moves the surplus to the hands and pockets of the producer.** Now in the actual world, we live neither in a world of perfect competition, nor a world of monopoly and perfect price discrimination. We know however, that both ends of the spectrum are efficient. As informed policy makers, who have read our economics textbooks and reflected on the wonder of allocatively efficient markets, we are therefore faced with a choice. Towards which one do we push?

In the post-lapsarian world of transaction costs, law may actually make a difference; the allocation of property rights, the organisation of antitrust law, the delineation of enforceable contracts, each of these may actually have effects on whether to move the market towards a monopoly with

²⁹ In each case the surplus is the degree to which the child’s willingness to pay exceeds the costs of production and (in the case of perfectly competitive market) of sale. Thus, the rich kid actually has a larger “surplus” ($\$85 - \$10 = \$75$) because he would have been able (and willing) to pay so much while the poor kid has a smaller surplus ($\$15 - \$10 = \$5$) because he is able (and willing) to pay less. Such a method of analysis will thus tend to see greater social losses in the thwarted desires of the rich than those of the poor. This, of course, is merely a corollary of the point made earlier.

perfect price discrimination or towards perfect competition. For example, if we weaken antitrust laws or even grant state-enforced monopolies, allow contracts that bind third parties, diminish privacy protections, add to the legal toolbox by which manufacturers can prohibit resale, and even put the force of law behind their technological attempts to do so, we may make it easier for the monopoly to be created in the first place, for the monopolist to generate the information that he needs in order to engage in effective price discrimination and then to give him the tools, legal and technological, to make that price discrimination stick. If we turn the legal rules in the opposite directions, we may make the market more competitive. Let us return to our Furby example. Say that, at present, the Furby company enjoys a limited royal charter. Furby-competitors are legally restrained from making furry talking dolls that children consider good substitutes. At present also, say that the Furby company is forbidden to gather certain kinds of information on children's preferences, that contracts which prohibit resale are unenforceable, that price-maintenance agreements with suppliers are illegal, and that Furby-buyers are allowed to "hack" the software system that the manufacturers include in an attempt to make the Furby responsive to only one buyer. The law, therefore, is putting obstacles in the way of moving towards perfect competition (the royal charter) and also in the way of moving towards monopoly and perfect price discrimination (the privacy rules, the prohibition of resale price maintenance and restraints on alienation, the privilege of owners to circumvent technological restraints on transfer.)

We know that *either* perfect competition or monopoly with perfect price discrimination will produce Pareto optimal results. We believe that there will be Pareto superior results if we approach very close either to perfect competition or perfect price discrimination, (although it is not clear what the shape of the curve is on either side.) Do we try to swing the market towards one or the other and, if so, towards which one? The question, of course, is impossible to answer in the abstract. We would have to know what the supposed benefits of the royal charter were so that we could estimate the costs of weakening it. We would have to put a valuation on the privacy protections that prevent manufacturers from gathering all the information they need to engage in accurate price discrimination. We would have to consider the dynamic effects of any rule-change on innovation in future products. We would also have to have some sense, as an empirical matter, of how "far" we were from the perfect price-discrimination model on the one hand and the perfectly competitive market on the other, the legal, administrative and other costs of actually making the change. After all, it is quite possible that we might actually push the system into a Pareto *inferior* equilibrium; after the rule change, the winners might not be able to compensate the losers and still come out ahead. We might actually have ethical or distributional commitments that changed the result of the analysis; exogenously determined rights to privacy and free speech, for example. We might believe that surplus in the hands of (generally poorer) consumers was more valuable than surplus in the hands of (generally richer) producers, because of the diminishing marginal utility of wealth, or the ethical logic of the original position. In short, the empirical uncertainties, ethical quandaries, and theoretical questions are manifold. Yet the legal and economic literature on intellectual property and information goods shows a consistent predilection to argue in favor of the

necessity and desirability of price discrimination³⁰ and this predilection is extremely attractive to the lobbyists of Econo-world.

Price Discrimination in Econo-world

Remember that the question for the legislators of Econo-world was, to what extent should the law forbid, allow or actively promote the process of producer control over users and digital objects beyond the initial transaction? The wonderful, the truly splendiferous thing about the economic analysis of price discrimination is that *it seems to tell us that it is economically necessary for the providers of digital content to control the after-market using all of the technological and contractual methods that I described*. Here is the perfect argument to make to legislators. Legislators have to step in to remove legal impediments to price discrimination, in fact to criminalize attempts at arbitrage. They do so, not to confer another huge chunk of monopoly rent on the content providers (though this will be a byproduct of their actions) but instead to make sure that the market is allocatively efficient. It is socially good for the newspaper to be able to price high when selling to the high-valuation/high-resources user, and low to the penurious student. If the student could resell her discounted digital text to the wealthy reader, the newspaper publisher would lose the incentive ever to publish at the low price. Like the manufacturer forced to depend on a single price for Furbies, the publisher would set the price at a level that guaranteed optimum return, leaving a tragic triangle of unmet need below that price. We are actually helping the poor by allowing producers to control the after-market and to capture all the consumer surplus.

Now we get to a lovely irony of the debate. When intellectual property rights were being justified using the economics of public goods problems, the very first tactic of opponents was to yell “monopoly” and to conjure up both the economic and the social evils associated with monopoly control. Intellectual property rights would lead to classic monopoly pricing, they suggested, with a deadweight social loss: customers who were willing and able to pay more than marginal cost, but who cannot afford to pay the monopolist’s optimal (single) price. In reply the defenders of intellectual property rights pooh-poohed the talk of monopoly. Copyright and patent are simply property rights that give producers an ability to exclude. Market circumstances might make a monopoly, the grant of an intellectual property right did not. Competition with other substitute goods (also protected by intellectual property) would drive the price down to a position much closer to marginal cost, so that the deadweight loss would be much smaller.

But now we have reached the second stage of the debate. Should the state facilitate the process of price discrimination? Let us start just by looking at allocative efficiency, without getting into a more complex analysis of dynamic innovation effects. If we truly have a market that exhibits the classic downward sloping demand curve under monopoly pricing, then there is a strong argument that the state should step in and aid the producers in their attempt to price discriminate -- for all the reasons discussed in the Furby example. Monopolies with perfect price discrimination are efficient, by definition. If on the

³⁰ See Varian *supra* note 1; Fisher *supra* note 1.

other hand, the market distribution of the product under the existing regime gets it to lots of consumers at marginal cost or close to it, then we are closer to the kinds of results produced by a competitive market and no change of legal regime is necessary.³¹ Even if the state were able to change the rules in a way that would transform the marketplace, the change would be purely distributional. Consumer surplus would simply be shifted away from consumers to producers.

Notice what has happened. Suddenly, the defenders of intellectual property expansion have an incentive to argue that this is *already* a monopoly (and so we need to move to price discrimination in order to achieve efficiency) while the critics of intellectual property expansion move towards saying that, even with intellectual property, the existing market often actually already distributes the good at very close to marginal cost. The positions have completely switched from the first stage of the analysis.

So what *does* the current pattern of market distribution look like? The marginal cost of information is zero. So the alternative to the monopoly-plus-perfect-price discrimination model is one where producers are granted a return adequate to achieve future production, and then the good is available free. Now there are a number of proposals to achieve exactly this kind of system, the most recent being that of Steve Shavell and Tanguy van Ypersele for an optional system of state rewards to inventors, followed by distribution at marginal cost.³² But what about the existing framework of intellectual property in the digital arena? As Wendy Gordon points out,³³ intellectual property doctrine itself can be seen as a rough form of price discrimination. The rights handed out to copyright holders, for example, allow segregation of high intensity/high valuation uses (performance, reproduction) from lower valuation uses (distribution), and the existence of first sale rights and fair use rights allows some users to buy the good at a reduced price or even obtain it free. Beyond this world is an after-market very different from the perfectly controlled one imagined by the content industries. Libraries, fuzzier uses (copies made for the laptop, for the car), petty illegal uses (copies made for friends), Napster-like “sharing” outside the permissible limits of the copyright law, and straightforward piracy, all combine to get information products to many people at very close to marginal cost. The system is a leaky one in two respects; the intellectual property owner’s rights are not absolute (yet) and the mercurial quality of the product itself means that both gray and black markets supply the good at very close to marginal cost; zero. Now it is unlikely that the legislature will be enormously receptive to the claim that piracy isn’t such a bad thing, but even so this situation is tolerable as long as a.) there are adequate incentives, cultural, criminal and commercial, to ensure the continuation of a large lawful market and thus to b.) provide

³¹ For reasons expanded on in a moment, the question isn’t whether the market is a perfectly competitive one, but rather whether it achieves a distribution fairly close to the one that a perfectly competitive market would produce. With information goods, which have a marginal cost of zero, this is actually possible in a market that lacks some of the characteristics economists normally assume in a perfectly competitive market.

³² Steven Shavell & Tanguy van Ypersele, *Rewards Versus Intellectual Property Rights*, (National Bureau of Econ. Research Working Paper No. 6956 1999)

³³ Wendy Gordon, *supra* note 1.

adequate incentives to the producer of the information good. Under those situations, we offer no cheers for the pirate, but no tears either. Leakiness is built into the system. If society has provided the producer with an adequate incentive to ensure future production, claims to scarce law enforcement and legislative services to ensure heightened returns, and the capturing of all consumer surplus, are economically questionable.

We are in other words, in an even more ambiguous position than the Furby manufacturer who has a royal charter, but who cannot prevent reverse engineering, competition, and resale. Information has a marginal cost of zero and limited excludability, and yet is bundled and tied to other goods, services and cultural meanings that have a higher degree of excludability. Older intellectual property law provided a deliberately messy and leaky system which actually seems like it might get information to many users at a price adequate to ensure future production, while others got it free. To be sure, there is little hard empirical evidence, but that failing is shared equally by both sides of the argument. And while price discrimination works neatly in the hypotheticals about Furbies, which have a marginal cost above zero, the case for price discrimination is weaker with pure information goods, when marginal cost falls to zero.

As Yochai Benkler points out in this volume, with perfect price discrimination we know that the producer of information would have no incentive to distribute it to that group consumers who could only pay marginal cost (zero) for it. Yet if those users would be willing to give their attention to the information, there is a welfare loss if we fail to provide it to them when its cost is zero. What's more, any analyst who is even a little uneasy about the "ability and willingness to pay" metric of valuation would find it particularly hard to say that the poor should not get access to a social resource with zero marginal cost, simply because they cannot afford to pay for it.

If there is an argument over the efficiency justification for having the state step in and help producers in their attempt to achieve more perfect price discrimination, are there other factors which break the tie, so to speak? What of more dynamic concerns about the encouragement of innovation? Some analysts clearly find this point to be persuasive. William Fisher's article, which I mentioned at the beginning of this essay, advocates using the lure of the profits promised by legally-aided price discrimination to get producers to accept a variety of socially-conscious limitations on their intellectual property rights.³⁴ Thus his argument hardly fits into the maximalist intellectual property agenda I am describing. But it is clear that he believes that price discrimination would have positive effects not only on efficiency but on innovation. As he puts it, "the *ratio* of the monopoly profits enjoyed by the author to the concomitant deadweight losses [under price discrimination] is *much* larger.... So what? That means, first of all, that social welfare losses have been reduced. In addition, we are getting much more bang for our buck -- a much larger incentive for creative activity per unit of social cost."³⁵ Now while there is much to agree with in Professor Fisher's article, I think the implications of this argument are troublesome. True, the incentive would be larger in the sense that producers of information goods would

³⁴ Fisher, *supra* note 1.

³⁵ Fisher, *supra* note 1 at 1240.

receive more money (though for both creative and non-creative activity; price discrimination measures could give additional protection to each.) But would this give us more bang for our buck in terms of actually producing more innovation, and more information goods? To answer that question, we would have to know about the effect of price discrimination on the cost of *inputs* into the productive process as well as the price of *outputs* from the productive process. Under price discrimination, after all, producers of information goods might well be paying more for inputs than they do now under the current leaky system, with limited enforceability of contracts of adhesion, first sale, fair use and so on. Producers would have strong incentive to identify and restrict potential competitors through technology and contract, or at least to charge them very high prices.³⁶ It would also be important to study the importance to innovation of that subset of information that content producers cannot currently control, and which is available as a result at its marginal cost of zero, but which they would be able to control under the legally sanctioned price discrimination regime.

To put it simply, the assumption that increasing the pricing power of the producer increases the amount of innovation and information produced is similar to the assumption that increasing the level of intellectual property rights produces more innovation. Intellectual property policy has to focus on the input side of the table as well as the output side of the table. In Econo-world, the critics of intellectual property expansion did this by focusing on the inhibiting effects of *monopolies* such as intellectual property rights on future innovation, and the deadweight loss they impose upon pricing decisions. When it comes to the price discrimination argument, however, the critics of intellectual property expansion will stress the way in which the current system is leaky enough to get the goods to many people at zero marginal cost. “Curing” that leakiness, they argue, may well result in both welfare loss and innovation loss. If the marginal cost of a good is zero, increasing contractual and technical control may simply make sure that a portion of the market it is not longer served at all. We lose leakiness without gaining perfect distribution.

The defenders of intellectual property expansionism in Econo-World, on the other hand, initially argued that intellectual property rights were simply property rights, not monopolies. When it comes to price discrimination however, their argument was simple. “Well, since we already have a monopoly, the only efficient market is a monopoly with perfect price discrimination. What’s more, the greater the

³⁶ Professor Fisher is one of the few who attempt to address this point, essentially reintroducing a fair use privilege for decompilation, future production and so on. Pincite. However, while these limitations on the total control regime move in the right direction, they only deal with innovation inputs in the final stages -- excluding the subtler contributions over which future creators cannot claim the right, precisely because they did not know that they were inputs to a creative project before they saw them. Thus judgements about the relative effect of perfect price discrimination on innovation will depend on judgements about whether or not more relevant information is likely to be available at marginal cost under such a regime or under the messier, leaky system we have now. Analyses that focus only on the output/incentive side of the table will miss this point, just as analyses that focus only on the incentive effects of intellectual property miss the importance of the public domain.

amount of consumer surplus captured by the producer, the greater the incentive to create future information goods.” Once again, the arguments are mirror images of one another.

Two further arguments about price discrimination deserve further notice, though neither of them would be particularly compelling in Econo-World. The first returns to the “ability and willingness to pay” metric. There are particularly strong reasons for doubting this way of valuing information goods. The endpoint of the perfect price discrimination plan is a pay-per-view world where each of us gets to see, use and consume only those information goods for which we would be willing to pay, even if at a very low level per page. The idea of consumer sovereignty rests on the compelling argument that people know what is good for them and can value it accordingly. Whether or not one accepts that premise everywhere else, and I would argue that *no-one* accepts it everywhere else, it is particularly hard to say that information can be valued in such a way.

With other goods we price partly by gathering more and more information about the value of the product. The paradox of information pricing is that, to know what it is worth to you, you would need to know what it is, but if you know what it is then you no longer need to purchase. More importantly, the valuation we put on apparently random, irrelevant information is shaped by our experience as “consumers” of such information in the past. The assumption of endogenous preferences notwithstanding, legal regimes can affect preferences and valuations. Most of the people who read this article are the products of a leaky and imperfectly controlled system, an information ecology, in which they could get access to large quantities of apparently irrelevant information because it was “free.” They learned that the book next to the one you are supposed to be researching for your paper is always the most interesting, and that the accumulation of apparently useless information pays dividends in the long run. What kind of preferences will be formed in the generation that comes of age in the world of perfect price discrimination, with the Visa card symbol always spinning in the background, and the micro-charges always ticking? Would they spend fifteen minutes (and some number of cents) reading about Caesar’s campaigns when they were supposed to be studying cesarian sections, about the Manhattan Project when they were supposed to be learning about Manhattan? It is possible, of course, that a world of perfect price discrimination would offer just as much free information, and just as much ability to experiment, to come to new understandings of one’s self and thus of one’s preferences. But we have no data either way, and both the economics and the business plans of the world of state-backed price discrimination point in exactly the other direction.³⁷ The vision of “worth,” “usefulness” and “welfare”

³⁷ To get a sense of what the world might look like, one should probably turn to Hal Varian’s work. I would argue that Fisher’s work with its public spirited and thoughtful attempts to leverage price discrimination into “semiotic democracy” doesn’t predict the actual practice of a state-sponsored regime of price discrimination nearly as well as Varian’s cheerful advice to business people on how they can milk their customers and block their competitors. Hal R. Varian, *Priceline's Magic Show: The name-your-price retailer has an old trick up its sleeve* (April 17, 2000), available in *The Standard* (visited Aug. 2, 2000) <<http://www.thestandard.com/article/display/0,1151,14015,00.html>>; Carl

(continued...)

offered by the conjunction of ability and willingness to pay is a problematic one in general, but it is particularly problematic if used as the metric for allocation of rights over information.

The second problem with the image of perfect state-backed price discrimination is that it would require massive information-gathering on the part of producers and, perhaps ultimately, of the state. Perfect price discrimination requires more information about customers than can be revealed by mere self-selection and more information-gathering (to prevent illicit arbitrage, lending or gifts). Do we really want to commit ourselves to a regime which will offer companies major assistance in the form of state power, assistance that will yield them big bucks, but only if they monitor their customers superlatively well? This seems like a rather perverse set of incentives. On dubious theoretical and empirical evidence, it sets up a system that more or less guarantees an unpleasant form of invasive monitoring. Even if we establish legally enforceable privacy principles (which would be hard to reconcile with the basic premise of the system) all the incentives run in one, anti-social direction. Along with the threat to privacy comes the threat to free architecture. Many of the Internet's attractive features as a speech technology -- its openness, its resistance to filtration by both public and private power, its anonymity -- seem like bugs rather than features from the point of view of perfect price discrimination. The regime of price discrimination would function far better in a network which had unique identifiers coded into hardware (as with the chip that Intel recently released)³⁸ and software,³⁹ and in which the entire "clickstream" was monitored from moment to moment. If payment is required for even very small sips of information, of course, many of these problems will be "taken care of," though not in any way we would like.

Once again, however, the legislators of Econo-World were unimpressed by these arguments. They voted for the entire package of price discrimination measures, adding the force of law to the digital fences, abolishing the exclusions on contracts of adhesion, repealing the prohibitions on resale price maintenance. "At last," they declared, "we have evolved from the messy and unpropertized world of the past into an era in which information and information goods will be moved to their highest use-value." A few critical and disconsolate economists claimed that the plan had merely piled bad economics on top of bad economics. First, they claimed, the legislature had expanded intellectual property rights unnecessarily, showering the content providers with economically unjustified monopolies in the new medium and completely neglecting the importance of the public domain. Then in the second stage of the analysis, they claimed, that the legislature had looked at the unnecessary monopolies it had created and, on the claim that the only efficient monopolistic market is a monopoly with perfect price discrimination, had handed over *another* huge slice of rights to the content providers. Once again, the powerful

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Shapiro and Hal R. Varian, "Lock >em up! What you should know about customer loyalty and the competitive concept of lock-in" (Oct. 15 1998), available in CIO Mag. (visited Aug. 2, 2000) <http://www.cio.com/archive/101598_book.html>.

³⁸ "Intel Drops Processor Serial Numbers" http://www.epic.org/alert/EPIC_Alert_7.08.html

³⁹ John Markoff, *Microsoft Will Alter its Software in Response to Privacy Concerns*, N.Y. TIMES, Mar. 7, 2000, § 1 at 1.

economic arguments against the move had been ignored. Error had been premised on error. These economists, however, were distinctly in the minority and their criticisms did not receive very good coverage. The lobbyists retired to their chambers to plan again.

Beyond Econo-World:

Econo-world is not our world. The critic would say that this is because our legislature is interested less in economic arguments than in more straightforward economic contributions. While I do not agree with the Chicago and Virginia School portrayals of all legislation as rent-seeking behavior by particular interests, it would be hard to find a more perfect example of rent-seeking than intellectual property legislation.⁴⁰ Why bother exploring the economics of intellectual property at all, then? Campaign contributions and not downward sloping demand curves will determine the results. Can you really explain the Sonny Bono Term Extension Act economically, perhaps as an attempt to offer incentives to the dead?⁴¹ The answer, I think, is that the economic analysis does still matter, and not just the economics of public choice theory.⁴² It matters in the debates, shifting the participants' perceptions of what constitutes a reasonable opening position. It matters enormously in implementation, when administrators and judges try very hard to make good public policy out of the legislation they have been handed. It may matter in constitutional litigation as judges assess whether the recent crop of intellectual property legislation can be construed in any way as an attempt to encourage authors and inventors.⁴³ And finally, it matters in more utopian ways, because we cannot know what proposals to support and what to criticize without some sense of their likely economic effects.

In this article, I have tried in a very, very short space to lay out some of the basic economic arguments for and against the creation of intellectual property rights and then for and against the

⁴⁰ "Copyright legislation in the United States has for at least a century been drafted not by the Congress, and not by the executive branch, but by multilateral negotiations among private industry representatives, sometimes with the assistance of the legislative branch. Copyright bills that have been drafted by some other process -- by members of Congress, Congressional staffers, or agencies in the executive branch -- have failed to achieve enough support for enactment." Jessica Litman, *Copyright and the Internet in the United States* <http://www.msen.com/~litman/atrip.htm> See also Jessica D. Litman *COPYRIGHT, COMPROMISE, AND LEGISLATIVE HISTORY* 72 Cornell L. Rev. 857 (1987).

⁴¹ Bono Copyright Term Extension Act, Pub. L. No. 105-298 102-06, 112 Stat. 2827, 2827-37 (1998) (to be codified at 17 U.S.C. 301-04 (1994)) [hereinafter Sonny Bono Term Extension Act].

⁴² To be sure, other things matter as well, including more romantic ideas of authorial creation, implicit ideas of the importance of information to the public and private spheres and so on. But I have tried to deal with those issues elsewhere. JAMES BOYLE, *SHAMANS, SOFTWARE AND SPLEENS: LAW AND THE CONSTRUCTION OF THE INFORMATION SOCIETY* (1996).

⁴³ Yochai Benkler, *Constitutional Bounds of Database Protection*, 15 BERKELEY TECHNOLOGY LAW JOURNAL 535 (2000).

institution of price discrimination. From my point of view, the same pairs of arguments appear again and again, from the highest level of analysis (are informationally efficient markets possible?) to the lowest (would price discrimination reduce innovation by raising the price of information inputs into future products)? Economists like to imagine a cool process of “balancing,” or a game theoretic analysis of strategy and counter-strategy, in which we try to find the efficient frontier between the need for incentives and the need for the free flow of information. I argued here, by contrast, that much of the important work is done before the balancing or the gaming even begins, in the construction of the issue to be analyzed. I deliberately set up my analysis in rhetorically loaded terms; a tale of relentlessly grasping content industries, persuading legislators to grant them larger and larger monopoly rents on the basis of poor economic analysis. I did this for two reasons. First, because it is true, or at least closer to truth than the cooler language of the little economic parables used to explain public goods problems. Second, such an overt loading of the scales triggers the very sophisticated rhetorical filters that all of us have developed to deal with arguments about public policy in other areas -- the environment, say. And if there is one thing that intellectual property policy needs it is more careful scrutiny of the rhetoric of economic analysis.

More substantively, the debate in Econo-World casts some light, I think, on the real history of intellectual property policy over the last twenty-five years, a history which could be summed up as the failure to consider the input side of the input-output table. Intellectual property policy has consistently under-valued the public domain, over-emphasized the threats and under-emphasized the opportunities presented by new technologies, ignored the extent to which information and information goods are actually bundled with other more excludable phenomena, exaggerated the role that incentives have in producing innovation while minimizing their negative effects, and so on.

The price discrimination debate adds some nice twists to the story. Two ironies are glaringly apparent. First, I argued that the move to price discrimination is a move that, in our world at least, is partly premised on the creation of unnecessary monopolies. To put it another way, there is something truly perverse about the idea that once the legislature has created an unnecessary and counter-productive intellectual property right over databases, they then have to turn around and give a second heaping slice of monopoly rent to the content-providers, because the only two types of efficient markets are perfect competition and monopoly with perfect price discrimination. The popular definition of chutzpah is the child who kills his parents and then throws himself upon the mercy of the court because he is an orphan. The economic definition of chutzpah is the industry that demands a legalized monopoly, and then, once given it, insists on the state's aid in price discrimination, the better to wring every last cent of consumer surplus out of their customers.

Second, and this is an irony that cuts as much against me as for me, I would predict a lovely inversion in arguments, as economists turn their attention to the advantages of price discrimination in digital markets. In the debate over the *creation* of intellectual property rights, critics yell “monopoly” and conjure up the image of both the static welfare losses and the dynamic innovation losses that result from monopoly. The other side of the argument counters with the claim that intellectual property rights

are not monopolies, merely property rights the exercise of which is chastened by the availability of substitute goods. When we turn to the argument over state aid for price discrimination, the critics switch sides, pointing out the many ways in which the leakiness of existing law and technology and the privileges given to users by intellectual property rights allow much information to be available at the price it would fetch in a perfectly competitive market; its marginal cost, namely zero. Defenders of price discrimination on the other hand, I would predict, will start from the assumption of strong monopolies and inadequate substitute goods; with these features, only price discrimination can prevent welfare losses.

So will the economic analysis of price discrimination provide the justificatory rhetoric for the next (or perhaps the current) phase of intellectual property expansion? Certainly the fit is a beautiful one. The agenda of the content industries is to use state-backed digital fences to enclose both their own products and large chunks of the public domain, to use licensing contracts to increase their control of digital objects after the consumer gets access to them, and to rest these two methods on a new menu of expansive intellectual property protections. The economic analysis of price discrimination provides a cool and apparently objective reason why state aid for the first two projects would be not only profitable but efficient. I would predict therefore that among the mandarin class of policy analysts we will see much more of it, generally without the carping objections raised here.

What about more popular public debate? As I have tried to demonstrate elsewhere,⁴⁴ the romance with which we view authorial creation and the incentives/public goods story combine to provide a very powerful public rhetoric in support of expansive intellectual property rights. Will the analysis of price discrimination be the rhetorical superstructure for the public justification of the content industries' current initiative? There, I think the answer is probably no, though I am prepared to be surprised. Lay people often react to differential pricing for the same good with a sense of unfairness. No matter how many times they are lectured by the economists that it is actually to the benefit of all that producers be able to charge different prices to groups with different ability and willingness to pay, the popular reaction is normally "that's not fair." Economists have tended to view this as a sign of the public's naive failure to understand market mechanisms. If the drug company can charge the poor nation a low price and the rich nation a high price for the same drug, all will be better off.⁴⁵ It is better, then,

⁴⁴ Boyle, Shamans *supra* note ____.

⁴⁵ The actual world of drug patenting and pricing turns out to be less benign. Poor countries do not in fact necessarily pay less; pricing power may have something to do with volume discounts, the range of alternative drugs in different countries, and the degree of regulatory control with which the state can threaten the drug company. Sometimes at least, it involves the very pattern I described in this article; the granting of unnecessary intellectual property rights in the first place is then used as the premise that the drug company also deserves the support of the state and the international community in milking those rights. Critics can be described as economically illiterate, though the real option is not just arbitrage, but a competitive market in the production of a public domain drug. Gregory Palast, Keep taking our tablets, (no one else's) *The Observer*, July 23, 2000, *Observer Business Pages*, Pg. 7.

that gray markets, parallel imports and resale be prohibited. Popular resistance can be branded as a kind of economically illiterate Jacobinism.

There is certainly some truth to this depiction; there are indeed benefits to price discrimination under certain circumstances. But I would like to think that the popular skepticism towards price discrimination also reflects something much more rational. Lacking time to educate themselves in every aspect of market and culture, the public tends to be skeptical when an industry claims that expert opinion shows that what is good for the company will also be good for the nation, and that state aid in enforcing its desires will produce an economically efficient result. And you know what? Given the arguments reviewed in this paper, I would say that the public has a point.

Speech Codes? DVD & DeCSS

“Anti-circumvention,” fair use & the 1st Amendment

I. Background:

A. Open Source

1. Harvey Blume, Open Science Online, THE AMERICAN PROSPECT, Mar. 27-Apr. 10, 2000, at 44 (edited excerpts).
2. Lawrence Lessig, Innovation, Regulation, and the Internet, THE AMERICAN PROSPECT, Mar. 27-Apr. 10, 2000, at 26 (edited excerpts).

B. Code = Speech?

3. *Junger v. Daley*, 209 F.3d 481 (6th Cir. 2000) (edited excerpts).

B. DeCSS and the Decoding of DVDs

1. Jeff Howe, He Who Waits, THE VILLAGE VOICE, Aug. 8, 2000, at 30 (edited excerpts).
2. Amy Harmon, Free Speech Rights For Computer Code, THE NEW YORK TIMES, July 31, 2000, at C1 (edited excerpts).
3. Memorandum of Law in Support of Plaintiff’s Application for a Preliminary Injunction, *Universal Studios, Inc. v. Reimerdes*, 82 F.Supp. 2d 211 (S.D.N.Y. 2000) (edited excerpts).
4. *Universal Studios, Inc. v. Reimerdes*, 82 F.Supp. 2d 211 (S.D.N.Y. 2000) (edited excerpts).
5. Plaintiff’s Post-Trial Brief, *Universal City Studios, Inc. v. Corley*, (S.D.N.Y. 2000) (No. 00-0277) (edited excerpts).
6. Defendant’s Post-Trial Brief, *Universal City Studios, Inc. v. Corley*, (S.D.N.Y. 2000) (No. 00-0277) (edited excerpts).

I. A. *Open Source*

Harvey Blume, Open Science Online, THE AMERICAN PROSPECT, Mar. 27-Apr. 10, 2000, at 44.

Edited Excerpts

...

THE OPEN-SOURCE WAY

...

...The Internet has been the host for the highly collaborative method of software development known as "open source." Instead of jealously guarding source code (the human-readable instructions that make up software) in a proprietary way, open-source programmers put their work online to encourage other programmers to work on it with them. As the open-source slogan has it, "Given enough eyeballs, all bugs are shallow." Or, as Microsoft put it in an internal memo that flatters open source as much as its most ardent advocate could wish, "The ability of the OSS [open source software] process to collect and harness the collective IQ of thousands of individuals across the Internet is simply amazing."

Open source is both a child and a parent of the Internet. The Internet provides the means for open-source programmers to compete with proprietary software producers. And crucial chunks of the Internet itself -- operating systems, server software, mail programs -- are open source.

The lessons of open-source software apply to other uses of electronic publishing. If a given field of study puts all or most of its work online where it is available for review, criticism, and development, that field has adopted an open-source style of work. And if this occurs in many fields simultaneously, it makes sense to think of open-source software not as a special case, but as a sign of a change in knowledge as a whole, a movement toward electronic collaboration. You don't need to cave in to source-code mysticism to note that something like this is occurring. Consider the following:

In 1991 Linus Torvalds put source code online that was to mature into the Linux operating system, one of the most conspicuous successes of the open-source method. Though this act has been elevated to the status of a digital creation myth, Torvalds later remarked that he had no idea at the time that he was doing anything special. He was simply allowing fellow programmers to inspect his fledgling efforts. But as fellow hackers e-mailed back fixes and extensions, Torvalds soon realized, "Wow, not only did people want to see the source, but it worked extremely well as a development model."

That same year, Tim Berners-Lee, a software engineer and physicist in Switzerland, developed the software for what was to become the World Wide Web and distributed it to fellow scientists at the Centre Europeen pour la Recherche Nucleaire (CERN). As Berners-Lee has put it, the world of science at CERN was a babel "of incompatible networks, disk formats, data formats, and character-encoding schemes, which made any attempt to transfer information between computers generally impossible." Berners-Lee hoped the Web would spell an end to "an era of frustration," and it soon went global. Because Berners-Lee consistently fought to keep Web protocols open, the Internet could provide "the feedback, stimulation, ideas, source-code contributions, and moral support that would have been hard to find locally. The people of the Internet built the Web, in true grass-roots fashion."

Lawrence Lessig, Innovation, Regulation, and the Internet, THE AMERICAN PROSPECT, Mar. 27-Apr. 10, 2000, at 26.

Edited Excerpts

...

At the core of the open-source and free software movements lies a kernel of regulation as well. ... At its root, open code rests upon a license -- upon a kind of law or regulation that controls how this "open code" can be used. Despite the monikers "free" and "open," this license is not for-giving. It is a fairly strict requirement about the uses to which free or open-source software can be put. One does not take open code in the sense one might take a free leaflet from a vendor on the street. A free leaflet one can burn, or box up, or keep from others in a million possible ways. Open code gives the recipient no such power. One takes open code on the condition that one keeps it open -- that one distributes it with its source intact, as open as one received it. The open-code movement thus uses law to keep code open. It grants people access to code on the condition that they pass the code along as unencumbered as they received it. (Actually, the licenses are many, and their details different, but this summary will suffice for my purposes here.)

This regulation, like the regulation of the old AT&T, has a consequence for innovation too. But its consequence is quite different. The law in open code means that no actor can gain ultimate control over open-source code. Even the kings can't get ultimate control over the code. For example, if Linus Torvalds, father of the Linux kernel, tried to steer GNU/Linux in a way that others in the community rejected, then others in the community could always have removed the offending part and gone on in a different way. This threat constrains the kings; they can only lead where they know the people will follow. The resource -- the source code -- is always out there to fuel a revolution, protected by a license from capture by any single person or corporation.

...

Thus, ... the regulation in open code operates to decentralize control and to ensure that many have the opportunity to innovate; it guarantees that no single vision of a product gets the power to capture that product. Only the market gets that power.

...

I.B.) Code = Speech?

3. Junger v. Daley, 209 F.3d 481 (6th Cir. 2000).

Edited excerpts

Peter D. Junger, Plaintiff-Appellant, v. William Daley, United States
Secretary of Commerce, et al., Defendants-Appellees.

UNITED STATES COURT OF APPEALS FOR THE SIXTH
CIRCUIT

209 F.3d 481

April 4, 2000

BOYCE F. MARTIN, JR., Chief Judge.

...

ENCRYPTION AND SOFTWARE BACKGROUND

Encryption is the process of converting a message from its original form ("plaintext") into a scrambled form ("ciphertext"). Most encryption today uses an algorithm, a mathematical transformation from plaintext to ciphertext, and a key that acts as a password. Generally, the security of the message depends on the strength of both the algorithm and the key.

Encryption has long been a tool in the conduct of military and foreign affairs. Encryption has many civil applications, including protecting communication and data sent over the Internet. As technology has progressed, the methods of encryption have changed from purely mechanical processes, such as the Enigma machines of Nazi Germany, to modern electronic processes. Today, messages can be encrypted through dedicated electronic hardware and also through general-purpose computers with the aid of encryption software.

For a general-purpose computer to encrypt data, it must use encryption software that instructs the computer's circuitry to execute the encoding process. Encryption software, like all computer software, can be in one of two forms: object code or source code. Object code represents computer instructions as a sequence of binary digits (0s and 1s) that can be directly executed by a computer's microprocessor. Source code represents the same instructions in a specialized programming language, such as BASIC, C, or Java. Individuals familiar with a particular computer programming language can read and understand source code. Source code, however, must be converted into object code before a computer will execute the software's instructions. This conversion is conducted by compiler software. Although compiler software is typically readily available, some source code may have no compatible compiler.

...

The issue of whether or not the First Amendment protects encryption source code is a difficult one because source code has both an expressive feature and a functional feature. The United States does not dispute that it is possible to use encryption source code to represent and convey information and ideas about cryptography and that encryption source code can be used by programmers and scholars for such informational purposes. Much like a mathematical or scientific formula, one can describe the function and design of encryption software by a prose explanation; however, for individuals fluent in a computer programming language, source code is the most efficient and precise means by which to communicate ideas about cryptography.

The district court concluded that the functional characteristics of source code overshadow its simultaneously expressive nature. The fact that a medium of expression has a functional capacity should not preclude constitutional protection. Rather, the appropriate consideration of the medium's functional capacity is in the analysis of permitted government regulation.

The Supreme Court has explained that "all ideas having even the slightest redeeming social importance," including those concerning "the advancement of truth, science, morality, and arts" have the full protection of the First Amendment. *Roth v. United States*, 354 U.S. 476, 484, 1 L. Ed. 2d 1498, 77 S. Ct. 1304 (1957) (quoting 1 Journals of the Continental Congress 108 (1774)). This protection is not reserved for purely expressive communication. The Supreme Court has recognized First Amendment protection for symbolic conduct, such as draft-card burning, that has both functional and expressive features. See *United States v. O'Brien*, 391 U.S. 367, 20 L. Ed. 2d 672, 88 S. Ct. 1673 (1968).

The Supreme Court has expressed the versatile scope of the First Amendment by labeling as "unquestionably shielded" the artwork of Jackson Pollack, the music of Arnold Schoenberg, or the Jabberwocky verse of Lewis Carroll. *Hurley v. Irish-American Gay, Lesbian and Bisexual Group*, 515 U.S. 557, 569, 132 L. Ed. 2d 487, 115 S. Ct. 2338 (1995). Though unquestionably expressive, these things identified by the Court are not traditional speech. Particularly, a musical score cannot be read by the majority of the public but can be used as a means of communication among musicians. Likewise, computer source code, though unintelligible to many, is the preferred method of communication among computer programmers.

Because computer source code is an expressive means for the exchange of information and ideas about computer programming, we hold that it is protected by the First Amendment.

...

B.) DVD/DeCSS

1. Jeff Howe, He Who Waits, THE VILLAGE VOICE, Aug. 8, 2000, at 30.

Edited Excerpts

It's been a long, strange trip for Eric Corley, a/k/a Emmanuel Goldstein, the publisher of '2600:the hacker quarterly' and subject of Hollywood's litigious ire. And if Corley's trip hasn't ended quite yet, at least the Long Island cyberjournalist will now have a breather so he can get back to work. Last week Corley's defense team introduced its final witness, and in doing so closed the trial portion of the court case that has been the focal point of Corley's life since he was first sued last year for posting DeCSS, a now infamous program, on his Web site (2600.com). (DeCSS breaks the encryption system used by the film industry to keep people from making copies of their DVD movies.) And because this case has been broadly viewed as the first real test of the controversial Digital Millennium Copyright Act of 1998, it has also become the focal point for groups ranging from entertainment insiders to cyberlibertarians and the open source community, which believes that programming code, like speech, wants to be free.

As the prosecution, the eight major motion picture studios have banded together, arguing that the utility runs afoul of the DMCA's provision prohibiting circumvention of technology used to protect copyrighted materials. For their part, Corley's team of defense lawyers insist that DeCSS--written as part of an open source project to allow Linux computers (an open source platform rapidly gaining in popularity) to play DVDs--merely provides consumers with the kind of "fair use" rights, such as taping a CD so you can play it in your car, that Americans have historically enjoyed.

They also argue that computer code is just that: code, a language like any other, capable of expressing ideas and therefore worthy of First Amendment protection. This principle came to the fore more than once during the trial, but never more poignantly than when Corley was asked under oath if he knew whether DeCSS would work when he posted it along with an article about the cracking of the movie industry's encryption scheme.

"The reason we posted the source code and the accompanying story is because it was already a story," said Corley, who wore his signature black pants and shirt [throughout] the trial and was called as a witness for the defense. "We saw it as a fascinating story, and we printed that story, we printed what the story was about, which was our source, our primary source. Here is what they are talking about, here is the source code." ...

Now Corley's fate, and that of computer code as speech, rests with U.S. District Court Judge Lewis A. Kaplan. Both sides are set to file their final briefs on August 8, and Judge Kaplan will issue a ruling shortly thereafter. He left plenty of doubt about the direction of his thinking. In his closing comments, he noted that while "probably nothing much has changed" regarding his analysis of the DMCA and its stiff protection of copyright, he admitted he found arguments made by the defense's final witness, computer scientist David Touretzky, "persuasive" and "educational."

Touretzky provided the grand finale in his Tuesday testimony. "I work in artificial intelligence and computational neuroscience, and my theories are expressed as computer programs," he told the court. If computer code is not afforded full protection as expression under the First, he says, "anyone who publishes a computer program is at risk." Touretzky walked the court through his "Gallery of CSS Descramblers" (found at cs.cmu.edu/dst/DeCSS/Gallery/index.html), in which DeCSS is expressed in several different ways, from English to object and source code.

The key word in all of this is expressed. If you can use any kind of code to express an idea, argue Touretzky and Goldstein, then that code is a language.

If Judge Kaplan has indeed cottoned to this notion, it would mark a great victory for Corley and his defense team, which is supported by the Electronic Frontier Foundation (eff.org), a cyberliberties group. Frustrating the oddsmakers, though, the judge also noted that even if computer code, "object or source," were considered expressive, "which way that cuts is another matter." He pointed out that even once speech is recognized as expressive, it does not enjoy unlimited protection under the First Amendment. In other words, libeling a financial trader may be expression, but it's also illegal conduct, as is pirating copyrighted intellectual property.

Another witness, however, made clear that piracy was never the objective behind writing DeCSS. Jon Johansen, the Norwegian teen cracker who started this mess by crafting DeCSS, finally had his day in an American court. Johansen and his father became the center of a media circus back in January when Hollywood pressured the Norwegian Economic Crime Unit to investigate the pair. The Motion Picture Association of America painted Johansen as a marauding underage pirate.

Yet in testimony marked by a remarkable simplicity, Johansen told the court that, contrary to the studios' claims, he had written DeCSS only to allow Linux users to play the same movies available to Windows and Mac users. He also revealed that the authorities in Norway not only declined to pursue the investigation, but that the Norwegian government had awarded Johansen a prestigious scholarship for his "contribution to society." Far from demonizing its hackers, Norway, it would seem, lionizes them.

Both sides in the DVD trial have pledged to appeal a losing decision, with one member of the defense legal team noting, optimistically perhaps, that "the case could be before the Supreme Court as early as next year." At issue will be not only the legal protection afforded the decryption program, DeCSS, but, quite possibly, the future of online media.

Though the DVD trial was roundly upstaged by news of Napster's sudden demise and just as sudden recovery, close observers of the judicial system note that the DVD trial may set the more significant legal precedent.

The prosecution claims that DeCSS poses the threat of irreparable harm to film copyright holders, and is nothing more than a utility for piracy. A clause within the Digital Millennium Copyright Act specifically forbids the "circumvention of copyright protection schemes." The plaintiffs, then, occupy a distinct redoubt in the actual letter of the law. On its face, the program would seem to be in clear violation of the statute.

Not so, claims the defense. "Nobody's in court arguing for the right to copy movies," says Wendy Seltzer, a fellow at Harvard's Berkman Center for Internet and Society and a staunch supporter of the defense. "The defense is arguing for the right to view movies on a different platform, a platform of their choice, and the right to use an excerpt in an academic presentation, which, currently, the plaintiffs would prohibit."

Few question whether the film studios, like the recording industry, will need to protect their copyrighted material. "These are people who've invested a lot of money, and they have a right to protect their revenue," says Meg Smith, another fellow at the Berkman Center for Internet and Society. "At the same time, an idea is not a chair. We traditionally have not wanted to treat intellectual property like physical property, like a chair, in which only one person can sit at a time. Ideas are very different, and we have tended as a society to believe that ideas should not be locked up for the use of one person."

Amy Harmon, Free Speech Rights For Computer Code, THE NEW YORK TIMES, July 31, 2000, at C1.

Edited Excerpts

It was perhaps the most arcane statement in all the hours of acronym-filled testimony, one that came on the last day of the six-day trial. But it may have been a turning point in an important battle over the limits of a new copyright law, a potential landmark case that ended its trial phase last week in Manhattan and now awaits a verdict by the judge.

More news coverage may have been devoted to the recent legal wranglings over Napster, the Web service that the recording industry has accused of abetting widespread music piracy. But the Manhattan case, involving the copying of DVD movie disks, may have more far-reaching effects -- both on the way cultural products are consumed and on whether computer code is deemed to be speech deserving of First Amendment protection.

From the witness stand last Tuesday, Prof. David S. Touretzky, a computer scientist at Carnegie-Mellon University, paged through a series of exhibits that included lines of software source code in the C computer language, an English-language description of the code, long strings of ones and zeros known as object code and a picture of a T-shirt with the object code printed on it.

All of the exhibits pertained to the subject of the trial: a software program that enables a user to decode the scrambling technology meant to prevent DVD movie disks from unauthorized copying. Professor Touretzky, an expert witness for the defense, told the judge that if he saw fit to ban any one depiction of the DVD-unsrambling software he would have to ban them all, because they all communicate the same thing.

"I see this as having a chilling effect on my ability as a computer scientist to express myself," Professor Touretzky said. He was referring to the court's preliminary injunction that barred a Web site from posting the underlying, or source, code for the cracking program. "If the court upholds this injunction, what would happen is that certain uses of computer language -- my preferred means of expression -- would be illegal."

Until that moment in the trial, United States District Judge Lewis A. Kaplan had appeared to have little doubt about the copyright law's constitutionality. In ordering the injunction, he had noted that the First Amendment does not shield copyright infringement, and that computer code was essentially "no more expressive than an automobile ignition key."

But in light of the professor's testimony, Judge Kaplan said, he would reconsider his constitutional analysis. It would be hard to make a case "that computer code of any kind has no expressive content," the judge said. "Which then gets you to the question of how then do you deal with it under the First Amendment?"

It was a significant statement to many legal experts, who see the DVD case pitting Hollywood's right to retain copyright control in the digital age against the right of individuals to exercise First Amendment free-speech rights.

In essence, the DVD case does not center on traditional copyright issues, like how much of a given work may be freely copied, or how many copies may be legally made, or even -- as in the Napster case -- who can be held liable for enabling someone else to make illegal copies.

Rather, the DVD trial is the first test of a 1998 federal law that made it a crime to manufacture or "offer to the public" a way to gain unauthorized access to any copyright-protected work that has been secured by a technology like encryption. It may sound like a hair-splitting distinction, but some people in the debate see it as a fundamental change -- as if the law now made it illegal not only to photocopy and sell a copyrighted book, but also to simply tell someone how to open and read that book without the publisher's authorization.

The so-called anti-circumvention provision is part of the Digital Millennium Copyright Act, Congress's attempt to update copyright law at a time when digital technology has made copying words, sounds and images far easier and less expensive than ever before.

But critics of the law in its current form worry that it goes far beyond the specific copyright challenges of the digital age to give copyright holders broad new powers over how the public uses their material. They worry that even time-honored "fair use" privileges like quoting from a novel in an essay of literary criticism or showing a movie snippet on a televised review could become illegal or even technically impossible since devising a way to do so would be illegal.

"We fundamentally change the face of copyright law if we say none of the limitations and defenses to copying apply if the copyright owner was smart enough to encrypt," said Mark Lemley, a law professor at the University of California, Berkeley who is not involved in the case. "Can you reverse-engineer software? Can you make parodies of someone's work? Can you make educational copies? All of that may be irrelevant if the mere act of getting access to the content for these purposes turns out to be illegal."

... Studio executives say they are depending on the new law to prevent the sort of mass copying of movies over the Internet that is already happening with music. Without the guarantee of that protection, a Warner Brothers executive testified in court, the industry would never have begun releasing movies in digital format.

But lawyers for the magazine publisher, Eric Corley, argue that the law may violate the First Amendment, and that the same principle of "fair use" of copyrighted material that is built into traditional copyright law should be applied to controlling access to digital works.

The defense argues that there is a legitimate use for the code that Mr. Corley published on his Web site at the end of last year. They say that the code is a crucial part of a legal reverse-engineering process that enables DVD owners to view the disks on computers running the Linux operating system, something that is otherwise not currently possible.

The outcome depends on Judge Kaplan, who presided over of testimony with obvious technological savvy. He has made clear his position that Congress did not build the notion of "fair use" into the restriction on circumventing encryption.

Mr. Corley's defense team led by the prominent First Amendment lawyer Martin Garbus, and financially backed by the Electronic Frontier Foundation, a free-speech group, have not been optimistic about winning the trial and have said all along that their main goal is to lay the groundwork for an appeal.

...

Whatever the eventual outcome of the case, legal experts expect it to lay the groundwork for future battles over the new copyright act. Mr. Corley is being tried for making unscrambling code available to the public. But there is another key provision to the law, a portion that Congress suspended when it passed the act in the fall of 1998. That portion would make it a crime for

anyone to circumvent encryption to gain access to a digital work -- in effect, to open and read a digital book without the publisher's authorization.

The Library of Congress has been asked to issue a recommendation, due in October, about what groups of people or classes of works, if any, should be exempted from the statute. Depending on the outcome, it could be a crime for anyone to use a program like DeCSS.

"If the only way you got material is basically in an encrypted form subject to a contract that says, 'You may not copy any of this,' how do you make fair use?" said Marybeth Peters, the head of the United States Copyright Office. Ms. Peters has been holding hearings on the matter for two years and must make her own recommendation soon to the Library of Congress.

Ms. Peters has been weighing arguments by copyright holders who contend they will have no incentive to produce digital material without the assurance of such protection, and by educational and civil liberties groups who argue that society will suffer if access to the products of mass culture is curtailed.

On many days "I'm ready to tear my hair out," she said. "The issues are really complicated, the legislation is less than clear, the interests are many and varied and we have very little guidance because the language is ambiguous and the stakes are very high."

**Memorandum of Law in Support of Plaintiff's Application for a Preliminary Injunction,
Universal Studios, Inc. v. Reimerdes, 82 F.Supp. 2d 211 (S.D.N.Y. 2000) (edited
excerpts).**

Edited Excerpts

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

UNIVERSAL CITY STUDIOS, INC.;)
PARAMOUNT PICTURES CORPORATION;)
METRO-GOLDWYN-MAYER STUDIOS INC.;)
TRISTAR PICTURES, INC.; COLUMBIA)
PICTURES INDUSTRIES, INC.; TIME)
WARNER)
ENTERTAINMENT CO., L.P.; DISNEY)
ENTERPRISES, INC.; AND TWENTIETH)
CENTURY FOX FILM CORPORATION,)
Plaintiffs,)
v.)
SHAWN C. REIMERDES; ERIC CORLEY A/K/A)
"EMMANUEL GOLDSTEIN"; AND ROMAN)
KAZAN,)
Defendants.)
_____)
_____)
_____)
_____)

**MEMORANDUM OF
LAW IN
SUPPORT OF
PLAINTIFFS'
APPLICATION FOR A
PRELIMINARY
INJUNCTION**

PRELIMINARY STATEMENT

...

Defendants are participating in a concerted effort to proliferate DeCSS via the Internet, and have made, in some cases, brazen invitations to others to engage in motion picture piracy. The sole function of DeCSS is to decrypt and unscramble DVD contents. As a result, Plaintiffs' movies may be perfectly copied innumerable times and then posted to, or transferred via, the Internet, thereby harming any potential market for them.

Defendants' acts are part of a larger effort by certain computer "hacker" groups with open disdain for the motion picture studios, copyright, and the law to broadly distribute DeCSS so that, according to their misguided beliefs, no courts or law enforcement agencies will be able to stop their illegal conduct. For example, one "netizen" has sponsored a widely-publicized "great

international source code distribution contest," offering prizes to the Internet participants who distribute the greatest number of copies of software like DeCSS. Defendants virtually invite suit in the mistaken beliefs that: (1) their conduct is an exercise of free speech; and (2) by proliferating DeCSS in an explosive manner, their numbers will discourage Plaintiffs, and this Court, from enforcing important federal law provisions enacted precisely to prevent such activities.

Consistent with the United States' obligations under the recently ratified World Intellectual Property Organization ("WIPO") treaties on copyright, the DMCA was designed to bring United States copyright laws into the digital age. The DMCA provisions prohibiting circumvention of encryption systems such as CSS were prompted by the need to protect copyrighted content stored on digital media from unlawful access. Congress clearly recognized that "[d]ue to the ease with which digital works can be copied and distributed worldwide virtually instantaneously," copyright owners, understandably, would hesitate to make their works readily available on digital media without strong protections. Thus, "[the DMCA] encourages technological solutions, in general, by enforcing private parties' use of technological protection measures with legal sanctions for circumvention and for producing and distributing products . . . that are aimed at circumventing" protection measures like CSS.

Absent effective enforcement of the DMCA anti-circumvention provisions, the harm to Plaintiffs is obvious and will be incalculable. Plaintiffs' most valuable assets are now being exposed to digital proliferation without their authorization or control. If this Court fails to issue a preliminary injunction, it will be removing the most formidable obstacle Congress put into place to protect against digital piracy. Because the equities are overwhelmingly in Plaintiff's favor, an immediate injunction is warranted.

...

ARGUMENT

...

PLAINTIFFS ARE ENTITLED TO A PRELIMINARY INJUNCTION

A. PLAINTIFFS ARE LIKELY TO SUCCEED ON THE MERITS OF THEIR DMCA CLAIM BECAUSE DEFENDANTS' ACTIVITIES CLEARLY VIOLATE THE ANTI-CIRCUMVENTION PROVISIONS OF THE COPYRIGHT ACT

One of the primary objectives of the DMCA was to bring United States copyright law in line with the World Intellectual Property Organization ("WIPO") treaties on copyright, which were ratified by the United States. The WIPO treaties imposed an obligation on member countries to "provide 'legal protection and effective legal remedies' against circumventing technological measures, e.g., encryption and password protection, that are used by copyright owners to protect their works from piracy"

Such protection was essential to bring United States copyright law into the digital age, and to provide a legal framework for copyrighted creative works to be offered to the public in digital formats without the substantial risk of wholesale, high-tech infringement. Key provisions of the DMCA (as codified in the Copyright Act at 17 U.S.C. § 1201, et seq.) unambiguously prohibit the circumvention of copyright protection systems like CSS. These provisions were designed, inter alia, to protect the "encryption on a DVD which acts as 'access control.'"

Specifically, Title 17 U.S.C. § 1201(a)(2) provides 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 -

(A) is primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to a work protected under this title;

(B) has only limited commercially significant purpose or use other than to circumvent a technological measure that effectively controls access to a work protected under this title;
or

(C) is marketed by that person or another acting in concert with that person with that person's knowledge for use in circumventing a technological measure that effectively controls access to a work protected under this title.

17 U.S.C. § 1201(a)(2) (1999). Only one of these conditions need be satisfied in order for this Court to find a violation. *See* S. Rep. No. 105-190, at 29 ("For a technology, product, service, device, component, or part thereof to be prohibited under this subsection, one of three conditions must be met.") (emphasis supplied). The anti-circumvention provisions directed toward "access controls" are designed to prevent the electronic "equivalent [of] breaking into a castle."

Under the statute, to "circumvent a technological measure" 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." 17 U.S.C. § 1201(a)(3)(A) (1999). Further, "a technological measure 'effectively controls access to a work' [within the meaning of section 1201(a)(2)] if the measure, in the ordinary course of its operation, requires the application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work." *See* 17 U.S.C. § 1201(a)(3)(B) (1999).

1. CSS Is a "Technological Measure That Effectively Controls Access to" Plaintiffs' Copyrighted Works

There is no question that CSS is a technological measure that was designed and employed to control access to Plaintiffs' copyrighted works and, thus, is entitled to protection under the anti-circumvention statute. Because the CSS encryption methodology requires a software "key" in order to effect playback of the copyrighted motion picture on a DVD, CSS qualifies as an "access" control measure within the meaning of 17 U.S.C. § 1201(a)(2).

Congress expressly declined to mandate any technical standard for the "effectiveness" of the "technological measure" for it to be entitled to protection under Section 1201(a):

Any effort to read into this bill what is not there -- a statutory definition of "technological measure" -- *or to define in terms of particular technologies what constitutes an "effective" measure*, could inadvertently deprive legal protection to some of the copy or access control technologies that are or will be in widespread use for the protection of both digital and analog formats.

Indeed, "[a] password fits [the] paradigm" of an "effective technological measure." *See* NIMMER § 12A.03[A][1][b], at 12A-17 (citing S. Rep. No. 105-190, at 12-13). Thus, any argument that, because a group of hackers was able to "break" the CSS encryption, CSS is undeserving of protection under the anti-circumvention provisions of the DMCA, defies common sense and the plain meaning of the statute.

2. "DeCSS" Unlawfully Circumvents CSS

The Senate Report accompanying the DMCA explains that, "if unauthorized access to a copyrighted work is effectively prevented through use of a password, *it would be a violation of this section to defeat or bypass the password and to make the means to do so*, as long as the primary purpose of the means was to perform this kind of act."

That is precisely what Defendants have done here. They are providing to the public (and, unless enjoined by this Court, will continue to provide) the "password" or "keys" to "unlock" DVD encryption in violation of Section 1201(a)(2).

3. Defendants' Acts of Offering to the Public, Providing, or Otherwise Trafficking in DeCSS Are in Direct Violation of the Statute.

Defendants' acts of providing DeCSS to the public blatantly violate the statutory mandate that no person shall, inter alia, "offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof" that circumvents an access control device such as CSS. "While this legislation is aimed primarily at 'black boxes' that have virtually no legitimate uses, trafficking in *any product or service* that meets one or more of the three points in [the 17 U.S.C. § 1201(a)(2)] test could lead to liability. It is not required to prove that the device in question was 'expressly intended to facilitate circumvention.'"

There is no question that Defendants are providing a circumvention device to the public within the plain meaning of the statute.

4. DeCSS Has the Primary Purpose of Circumventing CSS and Has at Most Only a Limited Commercially Significant Purpose or Use Other than to Circumvent.

DeCSS unquestionably was designed and disseminated with the "primary purpose" of circumventing the CSS encryption methodology within the meaning of 17 U.S.C. § 1201(a)(2)(A). In basic terms, as widely reported on Internet web pages and other on-line reports accompanying the initial posting of the utility, DeCSS copies a DVD file encrypted with the CSS algorithm and allows the user to save the file back to a hard drive, minus the encryption.

Moreover, the condition that a device must have "only [a] limited commercially significant purpose or use other than to circumvent," see 17 U.S.C. § 1202(a)(2)(B), "imposes an objective criterion: whatever the device's producer intended, how is the device in fact being used?" As discussed above, that question is easily answered given Defendants' provision of the DeCSS utility, and the other veritable "instruction manuals" available on-line for how to "crack open," decrypt, and copy Plaintiffs' DVDs.

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⁴⁶ For example, a bulletin board on the web site "www.pzcommunications.com" noted that "[o]ne of our visitors has informed us of a solution to the size of the [decrypted DVD] file problem for storage. OnStream's line of high performance, drive letter access tape drives allow you to store anywhere from 4 to 6

(continued...)

Plaintiffs do not have to show copyright infringement as an element of their anti-circumvention claim, although the potential for such additional claims is clear. To be sure, the fact that Defendants are offering or providing DeCSS - a prohibited circumvention device - to the public constitutes a violation of Section 1201(a)(2) and must be enjoined. Any arguments Defendants may pose concerning other theoretically "legitimate" applications of DeCSS are irrelevant, and do not constitute a defense to their violation of 17 U.S.C. § 1201(a)(2).⁴⁷

(...continued)

full quality, bit for bit *unprotected* copies of DVD's [sic] on one OnStream tape. No more flipping disk [sic], no more shuffling through menus, no more region codes, just hit play on your Software DVD player and away it goes!" Another www.pzcommunications.com visitor noted that "I can rip up to 5 full length DVDs and play them back directly from the [OnStream] tape drive. Ripping time for an average DVD [is] about 30 minutes when ripping directly to the OnStream drive letter (seems to be limited by the speed of the DVD-ROM I have)."

⁴⁷ For example, some Internet discussions have, as a pretext, the possible "research utility" of the DeCSS hack. However, none of the Defendants claims to have created DeCSS; they are merely proliferating it. As such, they cannot benefit from the extremely narrow "reverse engineering" or "encryption research" exemptions that are set forth in 17 U.S.C. § 1201(f) and (g).

5. Defendants' Activities Are Not Protected under the First Amendment.

Any defense based upon Defendants' alleged "entitlement" under the First Amendment to traffic in decryption devices should be given short shrift by this Court. The DMCA is, itself, based upon constitutional imperatives, and Congress took into account any First Amendment considerations when it enacted the DMCA. See 17 U.S.C. §§ 1201(c)(4) and 1203(b)(1). "[T]he first amendment is not a license to trammel on legally recognized rights in intellectual property'. . . Since the Copyright Act is the congressional implementation of a constitutional directive . . . , copyright interests also must be guarded under the Constitution." Cable/Home Communication Corp. v. Network Prod., 902 F.2d 829, 849 (11th Cir. 1990) (citation omitted); see also United Video, Inc. v. F.C.C., 890 F.2d 1173, 1190-91 (D.C. Cir. 1989) ("The Constitution grants Congress the power to secure for limited times to authors the exclusive right to their works, and this power generally supersedes the first amendment rights of those who wish to use another's copyrighted work").

The First Amendment does not prohibit Congress from preventing Defendants' proliferation of DeCSS. Just as the federal and state governments may protect private property by criminalizing breaking and entering, or the sale of specialized tools for picking locks, Congress also can protect intellectual property stored on digital media by criminalizing the distribution of devices that provide the keys to the proverbial "DVD castle."

B. PLAINTIFFS ARE BEING, AND WILL CONTINUE TO BE, IRREPARABLY HARMED BY DEFENDANTS' DISSEMINATION OF CIRCUMVENTION DEVICES SUCH AS "DeCSS"

The harm to Plaintiffs from Defendants' provision of DeCSS to the public, if left unchecked by this Court, will be enormous. Given the substantial investments already made in the DVD format and the CSS encryption standard, Plaintiffs are faced with a Hobson's Choice: they can continue releasing existing and new films on DVDs with the potential, if not the certainty, that each one may be freely decrypted and copied, thereby exposing Plaintiffs' most valuable assets to widespread, unrestricted commercial copying; or, Plaintiffs are faced with the prospect of limiting their movie releases on DVDs. Obviously, neither choice is attractive because the release of films on DVDs represents an important source of revenue to offset the considerable expenses of film production, distribution, and marketing. If the proliferation of DeCSS is left unchecked, it will greatly diminish the economic value of Plaintiffs' motion pictures, thereby reducing the amount of investment that can be made in those pictures. The result will be widespread economic harm not only to the motion picture studios, but also to those who work in the motion picture industry.

Moreover, the harm to consumers, who also have made substantial investments in DVD software and hardware, is equally significant. The losses from unauthorized copying of Plaintiffs' films in analog formats are immense, with industry estimates putting the figure in the billions of dollars annually. Digital copying and proliferation presents an even more formidable threat.

Ultimately, the consuming public also will suffer should the Court fail to enforce the federal anti-

circumvention provisions, since the latest digital, "high definition" technologies for the delivery of entertainment content may not be released so quickly. For example, the introduction of musical works on DVDs, already has been postponed because of the proliferation of DeCSS.

Given the potential for exponential proliferation of unauthorized copying through advances in digital technology, Congress deemed it essential - indeed, mandatory in light of the WIPO treaties - to put legal protections in place for the tools that copyright owners utilize to prevent unauthorized access to their copyrighted works in digital formats. Once a violation of the anti-circumvention provisions has been established, Plaintiffs are entitled to injunctive relief to prevent the proliferation of unlawful circumvention devices from spreading. See 17 U.S.C. § 1203(b)(1). This is because, as a practical matter, stopping the electronic reproduction and transmission of unauthorized copies of copyrighted works in the digital environment is extremely difficult, and has been recognized as such both by Congress and the courts. See, e.g., Sega Enters., Ltd. v. Maphia, 857 F. Supp. 679, 688 (N.D. Cal. 1994) (noting that the existence of 45,000 Internet bulletin boards, like the defendant's, which posted pirated video games, made it "obvious" that unauthorized copying of plaintiff's video game software would have a "substantial and immeasurable adverse effect on the market for [plaintiff's] copyrighted works"); S. Rep. No. 105-190, at 3 (recognizing that the "ease with which digital works can be distributed worldwide virtually instantaneously" will cause copyright owners to hesitate before making their works available in digital form). Any purported harm suffered by Defendants as a result of such an injunction is, by comparison, non-existent.

...

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

Edited Excerpts

UNIVERSAL CITY STUDIOS, INC, et al., Plaintiffs, -against-
SHAWN C. REIMERDES, et al., Defendants.

UNITED STATES DISTRICT COURT FOR THE SOUTHERN
DISTRICT OF NEW YORK

82 F. Supp. 2d 211
February 2, 2000

LEWIS A. KAPLAN, *District Judge*.

This case is another step in the evolution of the law of copyright occasioned by advances in technology. Plaintiff motion picture studios brought this action to enjoin defendants from providing a computer program on their Internet Web sites that permits users to decrypt and copy plaintiffs' copyrighted motion pictures from digital versatile disks ("DVDs"). They rely on the recently enacted Digital Millennium Copyright Act ("DMCA").⁴⁸

On January 20, 2000, the Court granted plaintiffs' motion for a preliminary injunction and indicated that this opinion would follow.

Facts

Plaintiffs in this case are eight major motion picture studios which are engaged in the business of producing, manufacturing and/or distributing copyrighted and copyrightable material, including motion pictures.

...

DeCSS

In October 1999, an individual or group, believed to be in Europe, managed to "hack" CSS [Content Scramble System, used to encrypt DVDs from unauthorized copying] and began offering, via the Internet, a software utility called DeCSS that enables users to break the CSS copy protection system and hence to make and distribute digital copies of DVD movies.

⁴⁸ 17 U.S.C. § 1201 et seq.

The Motion Picture Association of America ("MPAA") almost immediately acted under the provisions of the DMCA by demanding that Internet service providers remove DeCSS from their servers and, where the identities of the individuals responsible were known, that those individuals stop posting DeCSS. These efforts succeeded in removing a considerable share of the known postings of DeCSS.

On December 29, 1999, the licensor of CSS, DVD CCA, commenced a state court action in California for the misappropriation of its trade secrets as embodied in the DeCSS software. On the same day, the state court judge without explanation denied the plaintiff's motion for a temporary restraining order.⁴⁹ Members of the hacker community then stepped up efforts to distribute DeCSS to the widest possible audience in an apparent attempt to preclude effective judicial relief. One individual even announced a contest with prizes (copies of DVDs) for the greatest number of copies of DeCSS distributed, for the most elegant distribution method, and for the "lowest tech" method.

Defendants

Defendants each are associated with Web sites that were distributing DeCSS at the time plaintiffs moved for injunctive relief. Internet registry information indicates that defendant Shawn Reimerdes owns and is the administrative, technical and billing contact for a Web site bearing the domain name dvd-copy.com. Defendant Roman Kazan is listed as the technical contact for krackdown.com and the technical, administrative and zone contact for escape.com, which are registered to Krackdown and Kazan Corporation, respectively. Defendant Eric Corley, a/k/a Emmanuel Goldstein, is similarly listed for a Web site with the domain name 2600.com, registered to 2600 Magazine. None of the defendants submitted any evidence in opposition to the motion, and the Court in all the circumstances infers that each personally has been involved in providing and distributing DeCSS over the Internet via these Web sites.

Discussion

In order to obtain a preliminary injunction, the movant must show "(a) irreparable harm, and (b) either (1) a likelihood of success on the merits, or (2) sufficiently serious questions going to the merits to make them fair grounds for litigation and a balance of hardships tipping decidedly in its favor."

A. Irreparable Injury

The requirement of immediate and irreparable injury is satisfied in this case. Copyright infringement is presumed to give rise to such harm. In this case, plaintiffs do not allege that defendants have infringed their copyrights, but rather that defendants offer technology that circumvents their copyright protection system and thus facilitates infringement. For purposes of

⁴⁹ The same court reportedly granted the plaintiff's motion for a preliminary injunction following the decision in this case.

the irreparable injury inquiry, this is a distinction without a difference. If plaintiffs are correct on the merits, they face substantially the same immediate and irreparable injury from defendants' posting of DeCSS as they would if defendants were infringing directly. Moreover, just as in the case of direct copyright infringement, the extent of the harm plaintiffs will suffer as a result of defendants' alleged activities cannot readily be measured, suggesting that the injury truly would be irreparable.⁵⁰

B. Likelihood of Success

Plaintiffs' sole claim is for violation of the anti-circumvention provisions of the DMCA. They contend that plaintiffs' posting of DeCSS violates Section 1201(a)(2) of the statute, which prohibits unauthorized offering of products that circumvent technological measures that effectively control access to copyrighted works. Defendants respond that (1) they have been named improperly as defendants, (2) the posting of DeCSS falls within one of the DMCA exceptions and is not illegal under the statute, (3) application of the DMCA to prohibit posting of DeCSS violates defendants' First Amendment rights, and (4) a preliminary injunction would constitute an unlawful prior restraint on protected speech.

1. Defendants Are Properly Named

Defendants contend that plaintiffs' claim against all three defendants must be dismissed because defendants are not the owners of the Web sites containing the offending material and therefore are not the "real parties in interest." They rely on Rule 17 of the Federal Rules of Civil Procedure.

In relevant part, Federal Rule 17 states that "every action shall be *prosecuted* in the name of the real party in interest." This rule does not apply to defendants, as they are not prosecuting this action. Further, whether defendants own the Web sites at issue is not dispositive of anything. Plaintiffs claim that defendants' conduct violates the DMCA. If plaintiffs make such a showing, they will win on the merits. If they fail, defendants will be absolved of liability. As defendants have failed to submit affidavits or other materials indicating that they had nothing to do with the offending Web sites, the Court infers from the evidence before it, for the purpose of this motion, that they are responsible for the content of the sites. Of course, plaintiffs will bear the burden of proof on this issue at trial.

⁵⁰ Defendants suggest that plaintiffs delayed bringing this action, thereby undermining their claim of irreparable injury. Although undue delay in some circumstances can defeat a presumption of irreparable injury, that is so only where the delay is unexplained and unjustified. If a party is unaware at the outset of the scope of the threat or pursues with reasonable dispatch other means to remedy the problem without coming to court, there is no undue delay. In this case, plaintiffs first learned of the appearance of DeCSS on the Internet in late October 1999. Plaintiffs immediately sought to address the problem by approaching Internet service providers and met with some success. After a state court in California declined to issue a temporary restraining order in a case involving misappropriation of trade secrets on December 29, 1999, the dissemination of DeCSS became more widespread. As this motion was brought by order to show cause on January 14, 2000, the Court finds that plaintiffs acted with reasonable speed and that any delay was not undue.

2. DMCA Violation

Section 1201(a)(2) of the Copyright Act, part of the DMCA, provides that:

"No person shall . . . offer to the public, provide or otherwise traffic in any technology . . . that--

"(A) is primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to a work protected under [the Copyright Act];

"(B) has only limited commercially significant purpose or use other than to circumvent a technological measure that effectively controls access to a work protected under [the Copyright Act]; or

"(C) is marketed by that person or another acting in concert with that person with that person's knowledge for use in circumventing a technological measure that effectively controls access to a work protected under [the Copyright Act]."⁵¹

"Circumvent a technological measure" is defined to mean descrambling a scrambled work, decrypting an encrypted work, or "otherwise to avoid, bypass, remove, deactivate, or impair a technological measure, without the authority of the copyright owner."⁵² The statute explains further that "a technological measure 'effectively controls access to a work' if the measure, in the ordinary course of its operation, requires the application of information or a process or a treatment, with the authority of the copyright owner, to gain access to a work."⁵³

Here, it is perfectly clear that CSS is a technological measure that effectively controls access to plaintiffs' copyrighted movies because it requires the application of information or a process, with the authority of the copyright owner, to gain access to those works. Indeed, defendants conceded in their memorandum that one cannot in the ordinary course gain access to the copyrighted works on plaintiffs' DVDs without a "player key" issued by the DVD CCA that permits unscrambling the contents of the disks. It is undisputed also that DeCSS defeats CSS and decrypts copyrighted works without the authority of the copyright owners. As there is no evidence of any commercially significant purpose of DeCSS other than circumvention of CSS, defendants' actions likely violated Section 1201(a)(2)(B). Moreover, although defendants contended at oral argument that DeCSS was not designed primarily to circumvent CSS, that argument is exceptionally unpersuasive.⁵⁴ In

⁵¹ 17 U.S.C. § 1201(a)(2).

⁵² 17 U.S.C. § 1201(a)(3)(A).

⁵³ *Id.* § 1201(a)(3)(B).

⁵⁴ Defendants contended that DeCSS was intended only to permit persons in lawful possession of copyrighted disks to play them for their own use on computers running under the Linux operating system rather than Windows. *Tr.* at 28. Indeed, they suggested that this is the only possible use of DeCSS and that DeCSS does not permit the user to copy DVDs. *Id.* at 28-30. But the arguments are unpersuasive for two reasons. First, defendants have submitted no evidence--as distinguished from unsubstantiated assertions

(continued...)

consequence, plaintiffs have an extremely high likelihood of prevailing on the merits unless defendants' activities come within one of the exceptions in the DMCA or unless there is a constitutional impediment to this conclusion.

Defendants contend that their activities come within several exceptions contained in the DMCA and the Copyright Act and constitute fair use under the Copyright Act. They are unlikely to prevail on any of these contentions.

a. Service Provider Exception

Defendant Roman Kazan alone argues that his conduct falls under Section 512(c) of the Copyright Act, which provides limited protection from liability for copyright infringement by certain service providers for information resident on a system or network owned or controlled by them. This argument fails for several reasons.

First, Mr. Kazan offered no proof that he is a service provider within the meaning of Section 512(c).⁵⁵ But that point ultimately is unnecessary to the result.

Section 512(c) provides protection only from liability for copyright infringement. Plaintiffs seek to hold defendants liable not for copyright infringement, but for a violation of Section 1201(a)(2), which applies only to circumvention products and technologies. Section 512(c) thus does not apply here.

b. Reverse Engineering Exception

Defendants claim also to fall under Section 1201(f) of the statute, which provides that, notwithstanding Section 1201(a)(2)--

"a person who has lawfully obtained the right to use a copy of a computer program may circumvent a technological measure that effectively controls access to a particular portion of that program for the sole purpose of identifying and analyzing those elements of the program that are necessary to achieve interoperability of an independently created computer program with other programs . . . to the extent that any such acts of identification and analysis do not constitute infringement under this title."⁵⁶

(...continued)

at oral argument--to support these contentions. Second, even if DeCSS were intended and usable solely to permit the playing, and not the copying, of DVDs on Linux machines, the playing without a licensed CSS "player key" would "circumvent a technological measure" that effectively controls access to a copyrighted work and violate the statute in any case.

⁵⁵ 17 U.S.C. § 512(k) ("The term 'service provider' means a provider of online services or network access, or the operator of facilities therefore, and includes an entity" "offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a users, of material of the user's choosing, without modification to the content of the material as sent or received.").

⁵⁶ 17 U.S.C. § 1201(f)(1).

They contend that DeCSS is necessary to achieve interoperability between computers running on the Linux system and DVDs and that this exception therefore is satisfied. This contention fails for three reasons.

First, defendants have offered no evidence to support this assertion.

Second, even assuming that DeCSS runs under Linux, it concededly runs under Windows--a far more widely used operating system--as well. It therefore cannot reasonably be said that DeCSS was developed "for the sole purpose" of achieving interoperability between Linux and DVDs.

Finally, and most important, the legislative history makes it abundantly clear that Section 1201(f) permits reverse engineering of copyrighted computer programs only and does not authorize circumvention of technological systems that control access to other copyrighted works, such as movies. In consequence, the reverse engineering exception does not apply.

c. Encryption Research

Section 1201(g) provides in relevant part that:

"Notwithstanding the provisions of subsection (a)(2), it is not a violation of that subsection for a person to--

"(A) develop and employ technological means to circumvent a technological measure for the sole purpose of that person performing the acts of good faith encryption research described in paragraph (2); and

"(B) provide the technological means to another person with whom he or she is working collaboratively for the purpose of conducting the acts of good faith encryption research described in paragraph (2) or for the purpose of having that other person verify his or her acts of good faith encryption research described in paragraph (2)."

Paragraph (2) in relevant part permits circumvention of technological measures in the course of good faith encryption research if:

"(A) the person lawfully obtained the encrypted copy, phonorecord, performance, or display of the published work;

"(B) such act is necessary to conduct such encryption research;

"(C) the person made a good faith effort to obtain authorization before the circumvention; and

"(D) such act does not constitute infringement under this title"

In determining whether one is engaged in good faith encryption research, the Court is instructed to consider factors including whether the results of the putative encryption research are disseminated

in a manner designed to advance the state of knowledge of encryption technology versus facilitation of copyright infringement, whether the person in question is engaged in legitimate study of or work in encryption, and whether the results of the research are communicated in a timely fashion to the copyright owner.

There has been a complete failure of proof by defendants on all of these factors. There is no evidence that any of them is engaged in encryption research, let alone good faith encryption research. It appears that DeCSS is being distributed in a manner specifically intended to facilitate copyright infringement. There is no evidence that defendants have made any effort to provide the results of the DeCSS effort to the copyright owners. Surely there is no suggestion that any of them made a good faith effort to obtain authorization from the copyright owners. Accordingly, plaintiffs are likely to prevail in their contention that defendants' activities are not protected by Section 1201(g).

d. Security testing

Defendants contend also that their actions should be considered exempt security testing under Section 1201(j) of the statute. This exception, however, is limited to "assessing a computer, computer system, or computer network, solely for the purpose of good faith testing, investigating, or correcting [of a] security flaw or vulnerability, with the authorization of the owner or operator of such computer system or computer network."

The record does not indicate that DeCSS has anything to do with testing computers, computer systems, or computer networks. Certainly defendants sought, and plaintiffs' granted, no authorization for defendants' activities. This exception therefore has no bearing in this case.

e. Fair use

Finally, defendants claim that they are engaged in a fair use under Section 107 of the Copyright Act. They are mistaken.

Section 107 of the Act provides in critical part that certain uses of copyrighted works that otherwise would be wrongful are "not . . . infringement[s] of copyright." Defendants, however, are not here sued for copyright infringement. They are sued for offering to the public and providing technology primarily designed to circumvent technological measures that control access to copyrighted works and otherwise violating Section 1201(a)(2) of the Act. If Congress had meant the fair use defense to apply to such actions, it would have said so.

3. Constitutionality of DMCA

Defendants contend that the DeCSS computer program is protected speech and that the DMCA, at least insofar as it purports to prohibit the dissemination of DeCSS to the public, violates the First Amendment.

As a preliminary matter, it is far from clear that DeCSS is speech protected by the First Amendment. In material respects, it is merely a set of instructions that controls computers.⁵⁷ Courts that have considered the question whether program code is constitutionally protected expression have divided on the point.⁵⁸ Nevertheless, this Court assumes for purposes of this motion, although it does not decide, that even the executable code is sufficiently expressive to merit some constitutional protection. That, however, is only the beginning of the analysis.

a. Constitutionality of the DMCA

As some commentators have said, "Copyright law restricts speech: it restricts you from writing, painting, publicly performing, or otherwise communicating what you please." And though it might conceivably be argued that the First Amendment, which was adopted after the ratification of the Constitution itself, trumped the Copyright Clause and forbids all restraint or punishment of copyright infringement, this argument has been rejected by the Supreme Court, which views the Bill of Rights and the original Constitution as a single instrument and has made it unmistakably clear that the First Amendment does not shield copyright infringement. Indeed, copyright is an "engine of free expression" because it "supplies the economic incentive to create and disseminate ideas." To the extent there is any tension between free speech and protection of copyright, the Court has found it to be accommodated fully by traditional fair use doctrine, with expression prohibited by the Copyright Act and not within the fair use exception considered unprotected by the First Amendment.

The conclusion that copyright infringement may be proscribed consistently with the First Amendment does not end the inquiry, however. This case concerns the DMCA rather than the older aspects of the Copyright Act. The DMCA sweeps more broadly by prohibiting production

⁵⁷ Defendants asserted at oral argument that DeCSS, or some versions of it, contain programmer's comments, "which are non-executable appendages to lines of executable code." *Tradescape.com v. Shivaram*, 77 F. Supp. 2d 408 (S.D.N.Y. 1999). Such comments are protected by the First Amendment. Plaintiffs, however, have disclaimed any effort to restrain dissemination of programmer comments as distinguished from executable code.

⁵⁸ Compare *Bernstein v. United States Dept. of Justice*, 176 F.3d 1132, 1141 (holding that encryption software in source code form is constitutionally protected expression but expressing no opinion with respect to object code), *rehearing in banc granted, opinion withdrawn*, 192 F.3d 1308 (9th Cir. 1999); *with Junger v. Daley*, 8 F. Supp. 2d 708, 715-18 (N.D. Ohio 1998) (holding that encryption software in source code form is functional rather than expressive and therefore not protected speech); *Karn v. United States Dept. of State*, 925 F. Supp. 1, 9 n.19 (D. D.C. 1996) (assuming that source code is protected speech when joined with commentary, but stating that source code alone is "merely a means of commanding a computer to perform a function"); R. Polk Wagner, *The Medium Is the Mistake: The Law of Software for the First Amendment*, 51 STAN. L. REV. 387 (1999) (arguing that focus of analysis in software cases should be on whether government interests supporting regulation are related to suppression of expression, not on whether code itself is intended to be or understood as expressive); Mark A. Lemley & Eugene Volokh, *Freedom of Speech and Injunctions in Intellectual Property Cases*, 48 DUKE L.J. 147, 236-37 (1998) ("most executable software is best treated as a virtual machine rather than as protected expression").

and dissemination of technology that can circumvent measures taken to protect copyright, not merely infringement of copyright itself. It is a prophylactic measure. In consequence, further First Amendment analysis of the DMCA is warranted. Nevertheless, the DMCA appears to be a legitimate exercise of Congress' power.

The Copyright Clause empowers Congress "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors . . . the exclusive Right to their respective Writings" The Necessary and Proper Clause further provides that Congress may "make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers" Hence, the Necessary and Proper Clause grants Congress the power to do that which is necessary and proper to prevent others from publishing protected writings for the duration of the copyright.

The scope of Congress' power under the Necessary and Proper Clause is broad. As Chief Justice Marshall wrote in *McCulloch v. Maryland*, "Let the end be legitimate, let it be within the scope of the Constitution, and all means which are appropriate, which are plainly adapted to that end, which are not prohibited but consistent with the letter and spirit of the constitution, are constitutional." Moreover, the Supreme Court has made clear that Congress should be accorded substantial deference in determining how best to protect copyright in an age of rapid technological change.

In enacting the DMCA, Congress found that the restriction of technologies for the circumvention of technological means of protecting copyrighted works "facilitate[s] the robust development and world-wide expansion of electronic commerce, communications, research, development, and education" by "making digital networks safe places to disseminate and exploit copyrighted materials." That view can not be dismissed as unreasonable. Section 1201(a)(2) of the DMCA therefore is a proper exercise of Congress' power under the Necessary and Proper Clause.

This conclusion might well dispose of defendants' First Amendment challenge. Given Congress' justifiable view that the DMCA is instrumental in carrying out the objective of the Copyright Clause, there arguably is no First Amendment objection to prohibiting the dissemination of means for circumventing technological methods for controlling access to copyrighted works. But the Court need not rest on this alone.

In determining the constitutionality of governmental restriction on speech, courts traditionally have balanced the public interest in the restriction against the public interest in the kind of speech at issue. This approach seeks to determine, in light of the goals of the First Amendment, how much protection the speech at issue merits. It then examines the underlying rationale for the challenged regulation and assesses how best to accommodate the relative weights of the interests in free speech interest and the regulation.

As Justice Brandeis wrote, freedom of speech is important both as a means to achieve a democratic society and as an end in itself. Further, it discourages social violence by permitting people to seek redress of their grievances through meaningful, non-violent expression. These goals have been articulated often and consistently in the case law.

The computer code at issue in this case does little to serve these goals. Although this Court has assumed that DeCSS has at least some expressive content, the expressive aspect appears to be minimal when compared to its functional component. Computer code primarily is a set of instructions which, when read by the computer, cause it to function in a particular way, in this case, to render intelligible a data file on a DVD. It arguably "is best treated as a virtual machine . . ."

On the other side of this balance lie the interests served by the DMCA. Copyright protection exists to "encourage individual effort by personal gain" and thereby "advance public welfare" through the "promotion of the Progress of Science and useful Arts." The DMCA plainly was designed with these goals in mind. It is a tool to protect copyright in the digital age. It responds to the risks of technological circumvention of access controlling mechanisms designed to protect copyrighted works distributed in digital form. It is designed to further precisely the goals articulated above, goals of unquestionably high social value.

This is quite clear in the specific context of this case. Plaintiffs are eight major motion picture studios which together are largely responsible for the development of the American film industry. Their products reach hundreds of millions of viewers internationally and doubtless are responsible for a substantial portion of the revenue in the international film industry each year. To doubt the contribution of plaintiffs to the progress of the arts would be absurd. DVDs are the newest way to distribute motion pictures to the home market, and their popularity is growing rapidly. The security of DVD technology is central to the continued distribution of motion pictures in this format. The dissemination and use of circumvention technologies such as DeCSS would permit anyone to make flawless copies of DVDs at little expense. Without effective limits on these technologies, copyright protection in the contents of DVDs would become meaningless and the continued marketing of DVDs impractical. This obviously would discourage artistic progress and undermine the goals of copyright.

The balance between these two interests is clear. Executable computer code of the type at issue in this case does little to further traditional First Amendment interests. The DMCA, in contrast, fits squarely within the goals of copyright, both generally and as applied to DeCSS. In consequence, the balance of interests in this case falls decidedly on the side of plaintiffs and the DMCA.

b. Distribution of DeCSS as Part of a Course of Conduct in Violation of Law

Application of the DMCA to prohibit posting of DeCSS appears constitutional also because that posting is part of a course of conduct the clear purpose of which is the violation of law.

This line of reasoning first was articulated by the Supreme Court in *Giboney v. Empire Storage & Ice Co.*,⁵⁹ where the Court upheld an injunction against peaceful picketing by union members despite the contention that the picketers were attempting only to publicize truthful facts about a labor dispute. Although labor picketing traditionally enjoys First Amendment protection, the Court declined to extend such protection in *Giboney* on the ground that the picketing was integral to a course of conduct in violation of a valid criminal statute prohibiting

⁵⁹ 336 U.S. 490, 498, 69 S. Ct. 684, 93 L. Ed. 834 (1949).

restraint of trade. The Court warned that, as a general matter, the government "cannot consistently with our Constitution abridge [First Amendment] freedoms to obviate slight inconveniences or annoyances." but found that where the allegedly protected speech is "used as an essential and inseparable part of a grave offense against an important public law," it shall not be "immunized . . . from state control." The Court held further that "it has never been deemed an abridgement of freedom of speech or press to make a course of conduct illegal merely because the conduct was in part initiated, evidenced, or carried out by means of language, either spoken, written or printed." This principle has been applied in both criminal and non-criminal contexts as long as the offense in question is defined by a valid statutory scheme promoting an important public interest.

As has been discussed already, it no longer is open to doubt that the First Amendment does not shield copyright infringement. The fundamental purpose of DeCSS is to circumvent the technological means, CSS that ensures that the exclusive rights of the holders of copyright in DVD movies--including importantly the exclusive right to make copies--are protected against infringement. Even assuming that some would use DeCSS only to view copyrighted motion pictures which they lawfully possessed, and thus arguably not infringe plaintiffs' copyrighted motion pictures which they lawfully possessed, and thus arguably not infringe plaintiffs' copyrights, the record clearly demonstrates that the chief focus of those promoting the dissemination of DeCSS is to permit widespread copying and dissemination of unauthorized copies of copyrighted works. The dissemination of DeCSS therefore is the critical component of a course of conduct, the principal object of which is copyright infringement. That DeCSS arguably is expressive to some degree does not alter that reality. In light of *Giboney* and its progeny, defendants cannot latch onto the expressive aspect in order to shield a key aspect of a chain of events, the main purpose of which is unlawful. Application of the DMCA to prohibit production and dissemination of DeCSS therefore does not violate the First Amendment.

...

d. Overbreadth

Defendants allege that the DMCA is overbroad in that it "unquestionably attaches sanctions to protected conduct" and exerts clear "chilling effects" by restricting dissemination of protected computer code, limiting the rights of users to receive this code, and curtailing the rights of all Linux users to decrypt DVDs.

In order to challenge a statute on overbreadth grounds, a party first must show that the enactment reaches a "substantial amount of constitutionally protected conduct." Defendants have not done so here. The claim of overbreadth therefore fails.

4. Prior Restraint

Few phrases are as firmly rooted in our constitutional jurisprudence as the maxim that "any system of prior restraints of expression comes to [a] Court bearing a heavy presumption against its constitutional validity." Yet there is a significant gap between the rhetoric and the reality. Courts often have upheld restrictions on expression that many would describe as prior restraints, sometimes by characterizing the expression as unprotected and on other occasions finding the

restraint justified despite its presumed invalidity. Moreover, the prior restraint doctrine, which has expanded far beyond the Blackstonian model that doubtless informed the understanding of the Framers of the First Amendment, has been criticized as filled with "doctrinal ambiguities and inconsistencies resulting from the absence of any detailed judicial analysis of [its] true rationale" and, in one case, even as "fundamentally unintelligible." Nevertheless, the doctrine has a well established core: administrative preclearance requirements for and preliminary injunctions against speech as conventionally understood are presumptively unconstitutional. Yet that proposition does not dispose of this case.

The classic prior restraint cases were dramatically different from this one. ...In each case..., the government sought to suppress speech at the very heart of First Amendment concern--expression about public issues of the sort that is indispensable to self government. And while the prior restraint doctrine has been applied well beyond the sphere of political expression, we deal here with something new altogether--computer code, a fundamentally utilitarian construct even assuming it embodies some expressive element. Hence, it would be a mistake simply to permit its assumed expressive element to drive a characterization of the code as speech no different from the Pentagon Papers, the publication of a newspaper, or the exhibition of a motion picture and then to apply prior restraint rhetoric without a more nuanced consideration of the competing concerns.

In this case, the considerations supporting an injunction barring the posting of DeCSS pending a trial on the merits are very substantial indeed. Copyright and, more broadly, intellectual property piracy are endemic, as Congress repeatedly has found.⁶⁰ The interest served by prohibiting means that facilitate such piracy--the protection of the monopoly granted to copyright owners by the Copyright Act--is of constitutional dimension. There is little room for doubting that broad dissemination of DeCSS would seriously injure or destroy plaintiffs' ability to distribute their copyrighted products on DVDs and, for that matter, undermine their ability to sell their products to the "home video" market in other forms. The potential damages probably are incalculable, and these defendants surely would be in no position to compensate plaintiffs for them if plaintiffs were remitted only to *post hoc* damage suits.

On the other side of the coin, the First Amendment interests served by the dissemination of DeCSS prior to a trial on the merits are minimal. The fact that there may be some expressive content in the code should not obscure the fact that its predominant character is no more expressive than an automobile ignition key--it is simply a means, electronic in one case and mechanical in the other, of causing the machine with which it is used to function in a particular

⁶⁰ See H.R. REP. 106-216, 106th Cong., 1st Sess. (1999) ("Notwithstanding [penalties for copyright infringement] copyright piracy of intellectual property flourishes, assisted in large part by today's world of advanced technologies. For example, industry groups estimate that counterfeiting and piracy of computer software cost the affected copyright holders more than \$ 11 billion last year (others believe the figure is closer to \$ 20 billion). In some countries, software piracy rates are as high as 97% of all sales. The U.S. rate is far lower (25%), but the dollar losses (\$ 2.9 billion) are the highest worldwide. The effect of this volume of theft is substantial: lost U.S. jobs, lost wages, lower tax revenue, and higher prices for honest purchasers of copyrighted software. Unfortunately, the potential for this problem to worsen is great.").

way. Hence, those of the traditional rationales for the prior restraint doctrine that relate to inhibiting the transmission and receipt of ideas are of attenuated relevance here, even assuming that skilled programmers might learn something about encryption from studying the DeCSS code. Indeed, even academic commentators who take the extreme position that most preliminary injunctions in intellectual property cases are unconstitutional prior restraints concede that there is no First Amendment obstacle to preliminary injunctions barring distribution of copyrighted computer object code or restraining the construction of a new building based on copyrighted architectural drawings because the functional aspects of these types of information are "sufficiently nonexpressive."

To be sure, there is much to be said in most circumstances for the usual procedural rationale for the prior restraint doctrine: prior restraints carry with them the risk of erroneously suppressing expression that could not constructionally be punished after publication. In this context, however, that concern is not fully persuasive, both because the enjoined expressive element is minimal and because of the procedural context of the case. This injunction was issued only on a finding, after an adversarial proceeding, that plaintiffs have a very strong likelihood of ultimate success on the merits. The Court offered (and defendants thus far have declined) a virtually immediate trial on the merits, thus ensuring that the duration of the restraint prior to a final determination will be as brief as defendants wish. Hence, even assuming that preliminary injunctions that affect expression even incidentally to the regulation of other action should be granted only on the clearest showing after an adversary hearing and where the party enjoined may promptly obtain a final determination on the merits, those requirements have been satisfied here.

Accordingly, the Court holds that the prior restraint doctrine does not require denial of the preliminary injunction in this case.

Conclusion

For the foregoing reasons, the Court granted plaintiffs' motion for a preliminary injunction and entered such an order on January 20, 2000.

2. Plaintiff's Post-Trial Brief, Universal City Studios, Inc. v. Corley, (S.D.N.Y. 2000) (No. 00-0277).

Edited Excerpts

Full-Text available at the following locations:

<http://www.eff.org/IP/Video/> (EFF Archive)

<http://jya.com/cryptout.htm#DVD-DeCSS> (Cryptome Archive)

<http://www.2600.com/dvd/docs> (2600 Archive)

<http://eon.law.harvard.edu/openlaw/dvd/> (Harvard DVD OpenLaw Project)

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNIVERSAL CITY STUDIOS, INC.;)	00 Civ. 0277 (LAK)
PARAMOUNT PICTURES CORPORATION;)	
METRO-GOLDWYN-MAYER STUDIOS INC.;)	
TRISTAR PICTURES, INC.; COLUMBIA)	
PICTURES INDUSTRIES, INC.; TIME WARNER)	
ENTERTAINMENT CO., L.P.; DISNEY)	
ENTERPRISES, INC.; AND TWENTIETH)	

**PLAINTIFFS' POST-TRIAL BRIEF CONCERNING REMEDY
AND DEFENDANTS' FIRST AMENDMENT DEFENSE**

...

ARGUMENT

**I. PLAINTIFFS ARE ENTITLED TO INJUNCTIVE AND DECLARATORY
RELIEF**

A. Plaintiffs Are Eligible for Injunctive Relief Under 17 U.S.C. § 1203 Title 17 U.S.C. § 1203 provides that "[a]ny person injured by a violation of section 1201 or 1202 may bring a civil action . . . for such violation." This standing requirement, allowing any person "injured by a violation of section 1201 or 1202 [to] bring a civil action in an appropriate United

States district court for such violation" and to obtain a permanent injunction "*to prevent or restrain* a violation," requires nothing more than a nexus between the plaintiffs' encrypted, copyrighted works and the defendants' violation of the DMCA. It does not require, as defendants have repeatedly asserted, a showing that any works owned by plaintiffs have been decrypted by DeCSS, copied, sold in hard good form, or streamed over or downloaded from the Internet (although, if there were such requirements, plaintiffs plainly have met them). It only requires that plaintiffs prove, as they have (and defendants have admitted), that CSS effectively controls access to their DVDs, that DeCSS circumvents CSS, and that defendants are trafficking in DeCSS. Plaintiffs are, therefore, entitled to injunctive relief under § 1203.

1. Defendants Have injured plaintiffs by Trafficking in a Circumvention Device

Plaintiffs' claim is that defendants are providing and, unless they are permanently enjoined, will continue providing DeCSS — a device which circumvents the CSS system protecting their copyrighted films — in violation of § 1201 of the DMCA. Defendants' provision of DeCSS has caused plaintiffs to lose the assurance of protection that CSS gives to their valuable, copyrighted digital content released on DVDs. That is the injury the statute was created to prevent, and that is precisely the injury plaintiffs plainly have suffered and continue to suffer.

This showing is sufficient here. "When the [Supreme] Court has decided actual cases involving statutory rights, it has never required any showing of injury beyond that set out in the statute itself" — that is, beyond "the violation of the statutorily conferred right."

Plaintiffs established that the unlawful trafficking in a circumvention device (DeCSS) has exposed their released DVDs to risks of unauthorized and illegal copying, and threatens to destroy the industry's and the public's confidence in DVD as a format for presentation of copyrighted works to the ultimate detriment of consumers. These facts, without more, constitute irreparable harm that mandates injunctive relief.

Section 1203 does not require additional proof of present harm from copying. If it did, the § 1201 anti-trafficking provisions would be meaningless, because a plaintiff would have to wait until copyright infringement has occurred to bring an action, and infringement was already unlawful before the DMCA was enacted. Congress could not have intended a statute enacted after such extensive consideration to be

interpreted as mere surplusage to an already existing right to sue for copyright infringement.

Accordingly, defendants' mantra that plaintiffs cannot identify "one single person who has copied a DVD using DeCSS" is irrelevant. The requirement defendants seek to impose is inconsistent with the DMCA's design and purpose, which provide that the harm to plaintiffs is the loss of the right granted by Congress, *i.e.*, the right to restrain the trafficking to the public of unauthorized circumvention devices. In any event, as shown below, the circumstantial evidence that DeCSS is likely now being used for piratical copying is so overwhelming that it is absurd to argue that plaintiffs' "failure" to identify the name of one individual engaging in such copying is of any relevance whatsoever.

....

Defendants' "others are doing it too" argument already has been rejected under the DMCA. In *Sony Computer Entertainment Am. v. GameMasters*, 87 F. Supp. 2d 976 (N.D. Cal. 1999), plaintiffs sought to enjoin defendants' manufacture and sale of a "Game Enhancer" that permitted users to play plaintiffs' games sold in different geographical markets than the ones plaintiffs intended. On plaintiffs' motion for a preliminary injunction, the Court found that defendants likely were trafficking in a circumvention device in violation of § 1201(a)(2) of the DMCA. The defendants claimed that an injunction should not issue because the "Game Enhancer" device was available from numerous other retail sources in the geographic area and on the Internet. In granting the preliminary injunction, the court rejected what it characterized as defendant's "argument . . . that plaintiff must protect its intellectual property rights in an 'all or nothing' fashion, suing every infringing retailer at once or suing none at all."

As shown above, defendants' actions were in large part responsible for the proliferation of DeCSS over the Internet. This Court should not allow defendants to benefit from their own deliberate illegal acts. Simply put, defendants cannot preclude the issuance of a permanent injunction, which in plaintiffs' view would restore a significant increment of the protection that CSS has afforded their DVDs, by pointing to the alleged widespread proliferation of DeCSS for which they are, in large part, responsible. ... The very purpose of injunctive relief, in intellectual property cases as elsewhere, is to restrain the particular defendants before the Court from violating a plaintiff's rights in the future; equity is simply a court's personalization, to deserving defendants, of the legislation's more general commands.

...

I. APPLICATION OF THE DMCA TO PROHIBIT DEFENDANTS' UNLAWFUL CONDUCT DOES NOT VIOLATE THE FIRST AMENDMENT

In its February decision granting a preliminary injunction, the Court expressed doubt that the application of the DMCA's anti-circumvention proscription to DeCSS implicates First Amendment concerns at all, but proceeded to hold that, even if it did, injunctive relief would not violate the First Amendment. *Universal City Studios*, 82 F. Supp. 2d at 220-21. Although it was clearly their burden to do so, defendants adduced no evidence at trial that should change the holding correctly reached months ago — namely, that the DMCA does not violate the First Amendment, either on its face or as applied.

A. The DMCA Is an Appropriate Governmental Regulation of Conduct, Not Speech.

The prohibition against trafficking in circumvention devices is a law of general application aimed at conduct, not speech. Congress prohibited "manufactur[ing], import[ing], offer[ing] to the public, provid[ing], or otherwise traffic[king]" in any such circumvention devices.⁶¹ Laws of general application aimed at conduct are generally not subject to First Amendment review, even when applied to the press.

B. DeCSS is Neither "Speech" Nor "Expressive Conduct."

Although laws of general application may be subject to intermediate First Amendment review when they are applied to expressive conduct, defendants have not established that DeCSS has expressive content sufficient to warrant even intermediate scrutiny here. The question presented is not whether computer code *can* be sufficiently expressive to warrant First Amendment protection.⁶² Rather, the proper question is whether DeCSS — particularly in its executable form, but also in any other form posted or sought to be posted by defendants — is sufficiently expressive to warrant First Amendment protection. The testimony was virtually unanimous that DeCSS is simply a tool for decrypting DVDs — that it has no expressive content itself. DeCSS is a decryption device and, in that respect, is functionally indistinguishable from a key or "virtual machine."

⁶¹ See 17 U.S.C. § 1201(a)(2).

⁶² See *Junger v. Daley*, 209 F.3d 481 (6th Cir. 2000); *Bernstein v. United States Dep't of Justice*, 176 F.3d 1132, 1141 (9th Cir.) (holding that encryption software in source code form can be constitutionally protected expression, but expressing no opinion with respect to object code), *reh'g en banc granted, op. withdrawn*, 192 F.3d 1308 (9th Cir. 1999).

It is significant that Congress itself considered decrypting technologies and devices to be the equivalent of modern "keys." If, as plaintiffs submit, the unauthorized provision of an automobile key is proscribable and unprotected by the First Amendment, it is hard to see why any different analysis should apply merely because the decrypting technology defendants are providing happens to have been configured as software instead of hardware.

The testimony of Professor Touretzky affords no convincing basis otherwise, since the question of whether DeCSS is "speech" or "expressive conduct" for First Amendment purposes presents a question of law, not one of computer science or philosophy. At bottom, his argument would establish that a housekey is speech as well (as it communicates information to tumblers, which could as well be communicated to humans in various other languages or ways) — a conclusion that may be a *tour de force* but would not make house keys eligible for First Amendment protection. Dr. Touretzky's view is based on his puzzlement that the Court could "decide to ban, say, the C source code but not discussion of the algorithm," since "in [his] mind these things are all equivalent." With respect, the law does not treat instructions to machines in the same way as it treats political or academic discussions of those instructions, just as it distinguishes between illicit dealing in firearms and literary discussion of committing a crime. No matter how clever one may be in converting code to English or translating it into any other language, DeCSS itself (whether as an executable utility or in source code) is still just a set of unscrambling instructions to a machine, as inexpressive as the numeric combination to the locks to a bank vault. And since Professor Touretzky's testimony established that the source code can be readily converted to object code which, in turn, can be used to create the executable utility, the DeCSS source code is just as much a "technology," "device" or "component, or part thereof" within the meaning of the DMCA as is the executable utility.⁶³

C. At Most, Application of the DMCA to DeCSS Has An Incidental Impact on Speech and Does Not Violate Defendants' First Amendment Rights.

Assuming *arguendo* that DeCSS, as provided by defendants (as an executable utility or as object or source code), is sufficiently expressive to constitute "speech" within the meaning of the First Amendment, that conclusion only begins the inquiry, and the DMCA's application to defendants' provision of DeCSS would still be constitutional.

⁶³ See 17 U.S.C. § 1201(a)(2).

The government may regulate, or even proscribe, unlawful conduct and apply those regulations even to conduct claimed to be imbued with elements of protected "speech."

Here, assuming *arguendo* that the Court finds some expressive aspect to DeCSS (in any form), the DMCA represents unquestionably permissible governmental regulation of a particular *course of conduct* that causes substantive harm in an area that is within Congress's power to regulate — in this case, the widespread trafficking in devices which circumvent effective technological measures employed by copyright owners to protect their works. The Supreme Court consistently has deferred to Congress's ability to balance competing interests when technological innovations threaten to diminish constitutionally-based incentives to create, which are protected by the Copyright Act.⁶⁴

Indeed, the Congressional record for the DMCA reflects this careful balancing of First Amendment rights with the clear need to provide strong protections to copyright owners.

Defendants' argument that *all* computer code (and therefore DeCSS) is necessarily protected speech, and its reliance on Professor Touretzky's "slippery slope" arguments, goes too far. If DeCSS is "speech" immune from any regulation, then no device that can be embodied in computer software could ever be regulated by Congress. That is clearly not the case. Indeed, Congress intended that unlawful "devices" within the meaning of the anti-trafficking provisions would include any "technology measure" meeting the statutory definition, specifically including computer code. Moreover, taken to its logical extreme, defendants' argument would compel the conclusion that Congress could not regulate *any* Internet activities because, invariably, the transmission of any information over the Internet requires some level of computer processing and, therefore, necessarily entails the use of programming languages/source code. Congress's recent legislative efforts demonstrate the absurdity of such a premise.⁶⁵

⁶⁴ See, e.g., *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 431 (1984) ("Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology.").

⁶⁵ See, e.g., 15 U.S.C. § 6502 *et seq.* (prohibiting collection of personal information by websites or online service operators whose services are directed at children); 18 U.S.C. § 1030, *et seq.* (prohibiting, *inter alia*, fraud and related activity in connection with unauthorized access to computer systems).

Dated: August 8, 2000 Respectfully Submitted,

Attorneys for Plaintiffs

1. Defendant's Post-Trial Brief, Universal City Studios, Inc. v. Corley, (S.D.N.Y. 2000) (No. 00-0277).

Edited Excerpts

Full-Text available at the following locations:

<http://www.eff.org/IP/Video/> (EFF Archive)

<http://jya.com/cryptout.htm#DVD-DeCSS> (Cryptome Archive)

<http://www.2600.com/dvd/docs> (2600 Archive)

<http://eon.law.harvard.edu/openlaw/dvd/> (Harvard DVD OpenLaw Project)

Attorneys for Defendant Eric Corley a/k/a

EMMANUEL GOLDSTEIN

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

UNIVERSAL CITY STUDIOS, INC.,
PARAMOUNT PICTURES CORPORATION,
METRO-GOLDWYN-MAYER STUDIOS INC.,
TRISTAR PICTURES, INC.,
COLUMBIA PICTURES INDUSTRIES, INC.,
TIME WARNER ENTERTAINMENT CO., L.P.,
DISNEY ENTERPRISES, INC.,
and TWENTIETH CENTURY FOX FILM CORPORATION,

Plaintiffs,

- against -

ERIC CORLEY a/k/a
"EMMANUEL GOLDSTEIN" and
2600 ENTERPRISES, INC.,

Defendants

DEFENDANTS POST-TRIAL MEMORANDUM OF LAW

ARGUMENT

I. THE PROHIBITIONS CONTAINED IN SECTION 1201 MUST BE SUBJECT TO THE LIMITATIONS ON THE RIGHTS OF COPYRIGHT HOLDERS IMPOSED BY THE FIRST AMENDMENT AND THE FAIR USE DOCTRINE

The Court should find that Eric Corley's decision to post the DeCSS computer program on the 2600.com website as part of his magazine's report on the release, existence, and function of DeCSS was a protected exercise of the defendants' constitutionally guaranteed rights of a free and open press, rather than a violation of Sections 1201(a)(2) and 1201(b) of the DMCA as plaintiffs claim.

Plaintiffs argue that the DMCA, without exception, prohibits any person from offer[ing] to the public, provid[ing] or otherwise traffic[king] in any technology, product, service, device, component, or part thereof if it permits a consumer to circumvent certain defined technological measures that control access to a copyrighted work. Plaintiffs further argue that DeCSS is a "technology" within the meaning of the statute and that defendants' posting of and subsequent linking to the DeCSS program and source code on the internet constitutes an offering or trafficking of such technology in violation of Section 1201. Plaintiffs' arguments rely on an impermissibly narrow and unconstitutional reading of Section 1201. They ignore the mandates of the Constitution, the broader language and purpose of the DMCA's provisions, and the heart of the Copyright Act, which together unambiguously set forth the scope of and limitations on a copyright holder's exclusive rights in copyrighted material. For the Court to adopt plaintiffs' position, it would have to agree that Congress intended radically and fundamentally to change copyright law by prohibiting any access to digital copyrighted works, even if such access is necessary to make fair use by those in lawful possession of the work.

A far more rational view is that Congress intended the anti-circumvention provisions of Section 1201 to be tools of limited purpose, designed to assist the copyright holder in enforcing the traditional rights granted to copyright holders, while preserving the existing, crucial, statutory

limitations on the reach of those rights.⁶⁶ Foremost among the rights of the public to make non-infringing uses of copyrighted materials that were left undisturbed by Section 1201 is the right of fair use. As set forth below, the inclusion of fair use in Section 1201 is required as a matter of constitutional necessity. Indeed, there are ample grounds for construing Section 1201 to include and be limited by the public's rights of fair use.

1. Fair Use is Mandated by the First Amendment to Save the Copyright Act's Restrictions on Freedom of Speech from Violating the Constitution

This Court has already recognized that the Supreme Court and the Second Circuit have held that fair use has a constitutional magnitude:

To the extent there is any tension between free speech and protection of copyright, the Court has found it to be accommodated fully by traditional fair use doctrine, with expression prohibited by the Copyright Act and not within the fair use exception considered unprotected by the First Amendment.⁶⁷

Fair use is a flexible doctrine mandated by the First Amendment; it serves as sort of a check valve in balancing the competing interests of the cherished rights of freedom of speech and the press and the limited monopoly right granted to authors under the copyright law. In Harper & Row, the Supreme Court found no need to create a special "First Amendment" exception to copyright law "[i]n view of the First Amendment protections already embodied in the Copyright Act's distinction between copyrightable expression and uncopyrightable facts and ideas, and the latitude for scholarship and comment traditionally afforded by fair use."

However, just because the careful design of copyright law obviates the need for a special additional First Amendment exception does not mean that Congress is free of judicial scrutiny under the First Amendment when and if it seeks to alter the speech-protecting contours of copyright law. In fact, the opposite is true. Harper & Row underscores the Supreme Court's express reliance on fair use privileges to permit copyright law to exist in balance with the First Amendment. Indeed, the Court is clear that "copyright is intended to increase and not to impede the harvest of knowledge." Fair use, for commentary, criticism, and scholarship, including commercial use, helps to assure that copyright remains the engine of free expression that Congress is authorized to fuel, to promote the progress of science and useful arts. If the DMCA, either on its face or as interpreted or applied by plaintiffs, prohibits the dissemination

⁶⁶ See 17 U.S.C. §§ 106-120.

⁶⁷ *Universal*, 82 F. Supp. 2d at 220 (citing, *Harper & Row Publishers Inc. v. Nation Enterprises*, 471 U.S. 539, 551 (1985); *Wainwright Securities, Inc. v. Wall Street Transcript Corp.*, 558 F.2d 91, 95 (2d Cir. 1977), cert. denied, 434 U.S. 1014 (1978) *Conflicts between interests protected by the First Amendment and the copyright laws thus far have been resolved by application of the "fair use doctrine."*); *Ninon Keizai Shimbun Inc. v. Comline Business Data, Inc.*, 166 F.3d 65, 74 (2d Cir. 1999).

of a fair use utility that qualifies for First Amendment protection, the Court must find the statute unconstitutional.

One of DeCSS's several substantial and uncontroverted non-infringing uses is that it permits a DVD owner to exercise his or her right to make fair use of copyrighted material on the DVD. Under plaintiffs' sweeping interpretation of Section 1201's prohibitions, however, no one would ever be permitted to make a technology that decrypts the encrypted material on DVDs available to the public, thereby effectively exterminating the public's right to make fair use of DVD movies. The First Amendment does not permit this result, and Congress could not have intended it. In the context of Section 1201, fair use is both a privilege and a right guaranteed by Section 1201(c)(1): "Nothing in this section shall affect rights, remedies, limitations, or defenses, including fair use, under this title." Section 1201(c)(1) sets forth Congress' plain intention to preserve the right of fair use in Section 1201 as an affirmative right and as a limitation on the exclusive rights granted to authors by the Copyright Act. The phrase "including fair use" cannot be limited only to the fourth item in the series preceding it since fair use is not merely a defense, but must refer to each of the items in the series, including Congress' intent that Section 1201 not "affect" such "rights" or "limitations" as fair use.

Plaintiffs' reading of the Section 1201 anti-circumvention provisions would vest absolute power over copyrighted materials such as movies in the hands of the copyright holder, who could block all access to materials simply by adding a technological device to insulate the work from fair uses. Plaintiffs are attempting to rewrite the Copyright Act by reading a single provision of the statute in a vacuum. Permitting a computer program like DeCSS, which provides consumers with the necessary means to exercise their fair use rights in a variety of ways, including quoting from a movie, playing it on the computer operating system of their choice, evading improper region coding restrictions, and the like, is no more than the recognition that Section 1201 must track the limitations on copyright included in the Act. The fair uses thus permitted are all protected "substantial non-infringing uses."

Finally, given the huge number of sales of DVDs and the increasing likelihood that DVD will soon become the only format on which movies will be distributed to the public, plaintiffs' claim that Section 1201(a)(2) has nothing to do with fair use because the public has access to alternate formats (like VHS), is both misleading and wrong. Not only are some materials unique to the DVD format today, and the quality of DVD vastly superior to that of VHS, but any movie that will only be available on DVD will be forever and completely unavailable to the public for fair use. This cannot be squared with the Copyright Act or the doctrine of fair use.

2. "Authority" in Section 1201(a)(2) is the Authority Vested in the Copyright Holder by the Copyright Act

Other sections of Section 1201 support the foregoing analysis of Congress' intent to limit the scope of the anti-circumvention provisions. In particular, guidance is provided by "1201(a)(3)(A) and (B) defining, respectively, "circumvent a technological measure" and "effectively controls access to a work" for the purposes of subsection 1201(a). The definitions of both terms are tied to the "authority of the copyright owner" so that "circumvention" is defined in essence, as decryption without the copyright owner's authority, and "effectively controls access" means that access to the copyrighted material must be gained by using a process with the authority of the copyright owner. Both definitions beg the question of what constitutes the authority of the copyright owner.

We agree with plaintiffs and the Court that the authority of the copyright owner' is a matter of law, not a matter of fact. We argue that under the Copyright Act, consumers are given the authority to make use of a copyrighted work when they purchase it. Once there is a sale, the buyer has the right to perform all acts with it that are not exclusively granted to the copyright holder. For example, the buyer has the right to decrypt and view the movie in their own home.

One might think that the buyer does not have the right to decrypt the work (e.g. in order to view it) because the DMCA withholds that authority. But decryption and circumvention are two different things. The DMCA does not outlaw decryption; it only outlaws "circumventing" the encryption. Decrypting a work with the authority of the copyright holder is legal under the DMCA. The definition of circumvention reveals that to circumvent, one must be acting without the authority of the copyright holder. Any statement that a buyer does not have the authority to decrypt, because the DMCA prohibits decryption without authority, is a circular argument and thus invalid. ...

3. The Exemptions Contained in Section 1201(a)(1) Must Be Read in Conjunction With 1201(a)(2) or the Statute Will Deny the Public Access To the Tools Required to Perform the Permitted Acts of Circumvention

Congress certainly did not intend to destroy the traditional rights of the public by barring technologies that facilitate circumvention for lawful fair use purposes. A statutory scheme that facially permits fair use but only by those skilled enough to write their own DeCSS program is as undesirable as it is unlawful. Such a regime would limit the ability to exercise essential rights such as fair use to..."a small technological elite." The statutory analysis contained in sections A and B above cures this potential conundrum. So too does the necessary statutory approach of reading two parts of the same subsection - Section 1201(a) - together in order to give proper meaning to both. Thus, the scope of Section 1201(a)(2) is bounded by the exemptions set forth

in Section 1201(c)-(j). Of particular relevance to this case based on the testimony presented at trial are the exemptions for the permissible fair uses of reverse engineering, Section 1201(f).... Section 1201(f)(2) provides that:

Notwithstanding the provisions of subsections (a)(2) and (b), a person may develop and employ technological means to circumvent a technological measure, or to circumvent protection afforded by a technological measure . . . for the purpose of enabling interoperability of an independently created computer program with other programs, if such means are necessary to achieve such interoperability, to the extent that doing so does not constitute infringement under this title.

Because DeCSS and the LiViD player were developed for this exempt purpose, their creation was protected under this exemption. The distribution of DeCSS and the LiViD player is protected under 1201(f)(3) "to the extent that doing so does not constitute [copyright] infringement" or violate other laws. Defendants established that their distribution of DeCSS was not for copyright infringement, and that they have not sold a copy of a DVD disk or sent a movie on the Internet using DeCSS. There also is no evidence of any concrete case of third party copyright infringement using DeCSS. Defendant's publication of DeCSS does not violate other laws. Therefore, distribution of DeCSS and the LiViD player are permitted under 1201(f)(3).

...

II. THE DMCA IS UNCONSTITUTIONAL ON ITS FACE AND AS PLAINTIFFS SEEK TO HAVE IT INTERPRETED AND APPLIED

DeCSS enables the public to use legitimately purchased DVDs in ways that constitute fair use under the copyright law. If the Court finds that the DMCA does not incorporate traditional limitations on copyright law, including the right of fair use, either on its face or by interpretation, then the DMCA violates the First Amendment because it fundamentally alters the contours of copyright law and undermines the First Amendment protections traditionally afforded by fair use.

...We submit that Section 1201(a)(2) of the DMCA constitutes a content based restriction because it only applies to a particular form of computer code, namely, a software utility which is capable of circumventing a technological measure that effectively controls access to a copyrighted work. This is so because the ban urged by plaintiffs is complete and allows for no alternative forum for discussing and disseminating DeCSS or any other circumvention code. A restriction is content based where, as here, it prohibits discussion of an entire subject. Accordingly, the statute is subject to the "strict scrutiny" test applicable to content based regulations. It must be shown that the regulation is necessary to serve a compelling state interest

and that it is narrowly drawn to achieve that end. Section 1201 of the DMCA fails to meet this rigorous test because, at a minimum, it is not narrowly drawn.

Nor would it pass muster under the less demanding intermediate test applicable to content neutral restrictions.⁶⁸ Under O'Brien, a content neutral regulation will be sustained only if "it furthers and important or substantial governmental interest; if the governmental interest is unrelated to the suppression of free expression; and if the incidental restriction on alleged First Amendment freedoms is no greater than is essential to the furtherance of that interest." The governmental interest in question must be unconnected to expression in order to come under the less demanding rule in O'Brien. Narrow tailoring under O'Brien requires a finding that the means chosen do not "burden substantially more speech than is necessary to further the government's legitimate interests." This test cannot be met here either factually or legally.

...In this case, plaintiffs essentially argue that the DMCA can, consistent with the First Amendment, ban all publication and collaborative improvement of DeCSS on the Internet because it can be used to circumvent or decrypt the encryption on DVDs, despite ample and uncontroverted evidence of substantial non-infringing uses for the utility. The same arguments have been made before in other contexts and rejected and they must be rejected here.

1. DeCSS is Protected Speech

At this stage, there can no longer be any serious dispute that the DeCSS computer program, both as source and object code, is a form of expression entitled to the full protection of the First Amendment. As the Supreme Court has explained, "all ideas having even the slightest redeeming social importance," including those concerning "the advancement of truth, science, morality, and arts" have the full protection of the First Amendment. DeCSS is no less deserving of such protection than music, for which the language of expression is musical notes that are unintelligible to the average person, or any form of art, where the range of expression is virtually limitless.

In Junger v. Daley, 209 F.3d 481, 484 (6th Cir. 2000), the Sixth Circuit Court of Appeals held that computer source code is fully protected by the First Amendment, noting that "computer source code, though unintelligible to many, is the preferred method of communication among computer programmers." In this case, Dr. Touretzky has taught us that object code is just another variation, preferable in his view over English and source code for expressing certain ideas, but otherwise equivalent and no less worthy of protection. There is no more reason to differentiate under the First Amendment between different levels of computer code than there would be to differentiate between spoken languages or different forms of art. In Yniguez v.

⁶⁸ See United States v. O'Brien, 391 U.S. 367 (1968).

Arizonans for Official English, 69 F.3d 920, 934-36 (9th Cir. 1995)(en banc), vacated and remanded on other grounds, 520 U.S. 43 (1997), the court observed:

[S]peech in any language consists of the "expressive conduct" of vibrating one's vocal chords, moving one's mouth and thereby making sounds, or of putting pen to paper, or hand to keyboard. Yet the fact that such "conduct" is shaped by language--that is, a sophisticated and complex system of understood meanings--is what makes it speech. Language is by definition speech, and the regulation of any language is the regulation of speech.

In Bernstein v. United States Department of State, 922 F. Supp. 1426 (N.D. Cal. 1996), the court noted, "the functionality of a language," as in the case of computer code, "does not make it any less like speech." The court's reasoning is unassailable:

Nor does the particular language one chooses change the nature of language for First Amendment purposes. This court can find no meaningful difference between computer language, particularly high-level languages as defined above, and German or French. All participate in a complex system of understood meanings within specific communities. Even object code, which directly instructs the computer, operates as a "language." When the source code is converted into the object code "language," the object program still contains the text of the source program. The expression of ideas, commands, objectives and other contents of the source program are merely translated into machine-readable code.

Consistent with Dr. Touretzky's observations that object code is better for communicating certain ideas, the Yniguez court noted that "the choice to use a given language may often simply be based on a pragmatic desire to convey information to someone so that they may understand it." ...Music, for example, is speech protected under the First Amendment. The music inscribed in code on the roll of a player piano is no less protected for being wholly functional. Like source code converted to object code, it "communicates" to and directs the instrument itself, rather than the musician, to produce the music. That does not mean it is not speech. Like music and mathematical equations, computer language is just that, language, and it communicates information either to a computer or to those who can read it.

Defendants argue in their reply that a description of software in English informs the intellect but source code actually allows someone to encrypt data. Defendants appear to insist that the higher the utility value of speech the less like speech it is. An extension of that argument assumes that once language allows one to actually do something, like play music or make lasagne, the language is no longer speech. The logic of this proposition is dubious at best. Its support in First Amendment law is nonexistent. Thus, a computer program such as DeCSS cannot simply be outlawed without carefully considering its expressive content.

...

Two other sections of the DMCA, however, indicate that plaintiffs' interpretation of the statute is not what Congress intended. First, Section 1203(b)(1) allows the Court to grant temporary and permanent injunctions as it deems reasonable to prevent or restrain a violation, but it underscores that in no event shall the Court "impose a prior restraint on free speech or the press protected under the 1st amendment to the Constitution." Second, ...Congress made clear in Section 1201(c)(4) that "Nothing in this section shall enlarge or diminish any rights of free speech or the press for activities using consumer electronics, telecommunications, or computing products."

Furthermore, the legislative history accompanying the DMCA indicates that at least some members of Congress understood Section 1201 to be limited to conventional devices, specifically "black boxes," as opposed to computer code. For example, Senator Ashcroft, who drafted Section 1201's savings clause for legitimate devices, stated:

In discussing the anti-circumvention portion of the legislation, I think it is worth emphasizing that I could agree to support the bill's approach of outlawing certain devices because I was repeatedly assured that the device prohibitions are aimed at so-called "black boxes" and not at legitimate consumer electronics and computer products that have substantial non-infringing uses. I specifically worked for and achieved changes to the bill to make sure that no court would misinterpret this bill as outlawing legitimate consumer electronics devices or computer hardware. As a result, neither section 1201(a)(2) nor section 1201(b) should be read as outlawing any device with substantial non-infringing uses

Thus, there is no clear indication that Congress intended the word "technology" in Section 1201 to apply to computer code or to limit the application of the fair use doctrine and this Court should not infer such an intent on such an ambiguous record. Certainly, if hardware devices with substantial non-infringing uses are not outlawed, neither are software utilities.

2. Overbreadth

The DMCA as interpreted by plaintiffs and previously by this Court is also overbroad: it would prohibit defendants from posting and making programs such as DeCSS available in any form, from English to any level of computer code. It is also overbroad because it would prohibit fair uses of DVDs by means of the DeCSS program. ...[T]he overbreadth doctrine enables litigants "to challenge a statute, not because their own rights of free expression are violated, but because of a judicial prediction or assumption that the statute's very existence may cause others not

before the court to refrain from constitutionally protected speech or expression.” “[W]here conduct and not merely speech is involved, . . . the overbreadth of a statute must not only be real, but substantial as well, judged in relation to the statute's plainly legitimate sweep.”

Like the Communications Decency Act, which the Supreme Court struck down as unconstitutional in Reno v. ACLU, 521 U.S. 874 (1997), the DMCA as interpreted by plaintiffs would effectively suppress a large amount of speech that people have a constitutional right to receive and address to one another. The evidence presented by defendants clearly shows that DeCSS has substantial non-infringing and non-commercial uses as a utility that enables DVD owners to play DVDs on Linux systems and otherwise make fair use of DVDs. The DMCA must be read to incorporate and allow for such uses or it is unconstitutional.

.....

3. Vagueness

As interpreted by plaintiffs, the DMCA also fails to pass constitutional muster on First Amendment grounds because of vagueness. A statute can be impermissibly vague for either of two independent reasons. First, if it fails to provide people of ordinary intelligence a reasonable opportunity to understand what conduct it prohibits. Second, if it authorizes or even encourages arbitrary and discriminatory enforcement. Generally, neither hypertechnical theories nor speculation about possible vagueness in hypothetical situations not before the court will support a facial attack on a statute when it is unquestionably valid "in the vast majority of its intended applications." That, however, is not true here.

The terms at issue here are not commonplace terms with well-defined meanings. To the contrary, we are dealing with emerging technologies in a rapidly developing area where Congress admittedly had no expertise. For that very reason, the statute provides for a two-year tolling period to allow for study concerning the application of the terms at issue and specifically to consider the fair use issues presented here.

The term "technological measure" is so broad that it could potentially include everything from a program like DeCSS to the application of bailing wire twisted around a book. Even the terms "offer to the public, provide, or otherwise traffic" are too vague, since Section 1201 has no scienter requirement (as compared to Section 1202). Equally problematic, as discussed more fully below, is the meaning of the term "authority of the copyright owner" in Section 1201(a)(3): what is this "authority," and by whom and how is it granted? Similarly vague are the terms "any technology, product, service, device, component, or part thereof" - particularly as they apply to the rapidly changing Internet. While these words are sufficiently precise in relation to the selling of "black boxes" to descramble cable transmissions, they are far too vague to permit anyone to distinguish between programs with "substantial non-infringing uses" and those that violate the statute. In the context of the wide-open reaches of the Internet, where any speaker can be a

pamphleteer, the meaning of the statute becomes exceedingly fuzzy. The DMCA's vague definitions also present a real and chilling threat of self-imposed censorship of speech.

...

CONCLUSION

The DMCA on its face, and as plaintiffs seek to have this Court interpret and apply it, violates the First Amendment. If it is not construed to permit fair use, as defendants argue, the Court must find that the statute is unconstitutional not only with respect to computer code, but as to all circumvention devices. In any event, these plaintiffs have suffered no imminent damage recognizable under the law and their application for an injunction should be denied. The preliminary injunction should be lifted and judgment entered in favor of defendants.

Dated: New York, New York

August 8, 2000

Attorneys for Defendants Eric Corley a/k/a Emmanuel Goldstein and 2600 Enterprises, Inc.

Napster, Gnutella and Peer to Peer File Sharing

Mapster v2.0 BETA 7

File Actions Help

Home Chat Library Search HotList Transfer Discover

mapster

New Artist Program

We come to Mapster's New Artist Program. Find the best up-and-coming music and by typing a band's name in the search box, or have a list of genres to go!

[Create Profile](#) | [Register](#) | [Help](#)

Search for New Artist/Influence

Browse By Genre

Blues	Jazz
Classical	New Age
Country	Other
Electronic	R&B
Ethnic	Rock
Gospel	Soul

Featured artist:
elwood
click here to search!

Looking for something new? We are happy to introduce you to Elwood, a exciting new artist on the Pam Pictures label. For more information, visit the [official site](#), or use Mapster to search the "Sounddown" by Elwood.

75 ARK Records

Check out THE NEXTMEN remix of Elwood's single Love & Hate from their debut album "Self-Preservation" (75 Ark Entertainment)

All India

Online (PSchuler): Sharing 2 files. Currently 750,277 files (3,137 gigabytes) available in 0,053 libraries

Mapster v2.0 BETA 7

File Actions Help

Home Chat Library Search HotList Transfer Discover

Artist:

Title:

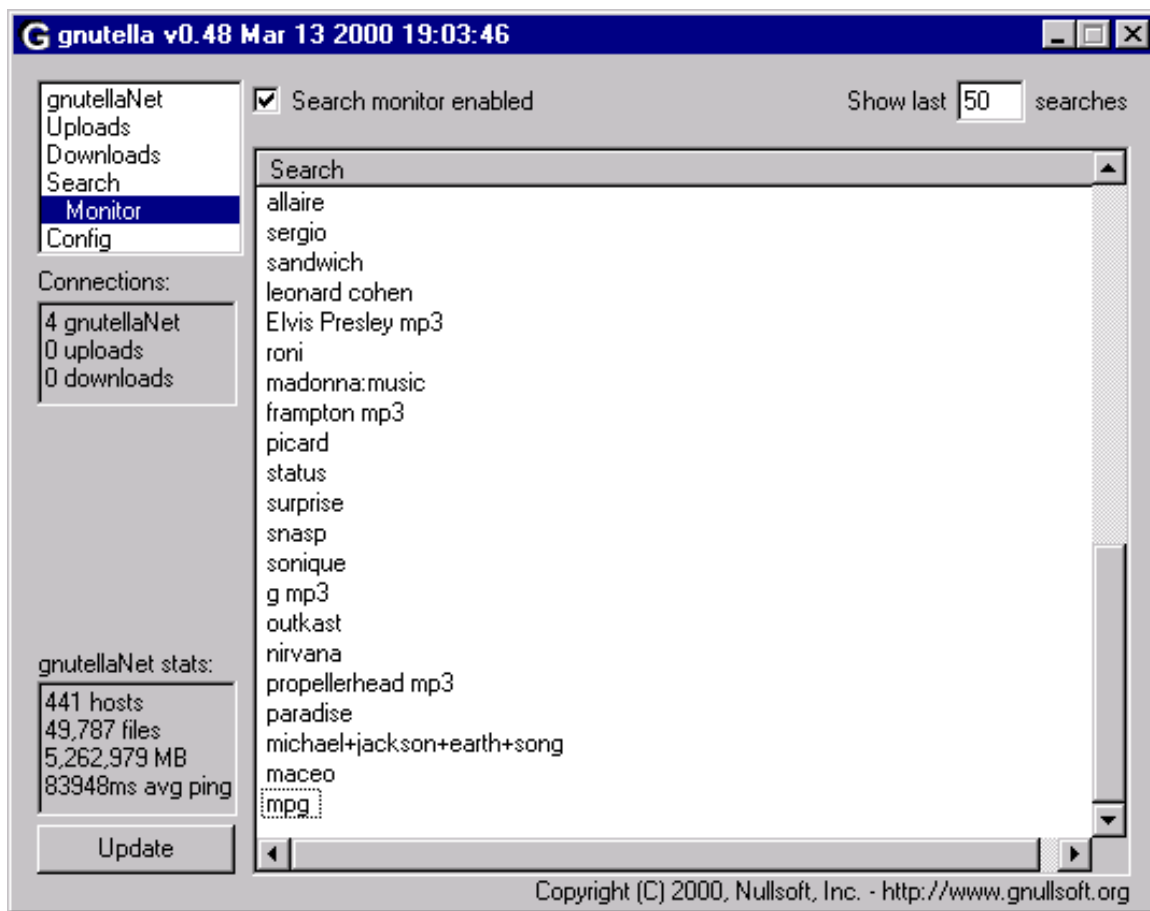
Max Results:

Filename	Filesize	Bits/s	Freq	Length	Artist	Connection	Prog
187-quality\cd\01-blue_nile.mp3	5,745,332	128	44100	5:56	etnrcpl...	Cable	30
Blue Nile - Alice Coltrane featuring Pharoah Sanders and Joe Henderson...	8,413,503	160	44100	6:56	emg5800	Cable	50
Music\Blue Nile - Tinseltown in the rain.mp3	5,854,152	128	44100	5:51	JoeCapoi	Cable	60
Music\Blue Nile - Sentimental Man.mp3	4,904,761	128	44100	5:05	JoeCapoi	Cable	60
Music\The Blue Nile - Late - The downtown lights.mp3	7,801,771	160	44100	6:26	JoeCapoi	Cable	60
Music\The Blue Nile-Seven A.M..mp3	3,713,024	95	44100	5:08	JoeCapoi	Cable	60
Music\The Blue Nile-Late Go Out Tonight.mp3	3,794,944	95	44100	5:17	JoeCapoi	Cable	60
Music\Foobie Robertson - Stealing the Rules (with Blue Nile).mp3	3,670,000	128	44100	3:50	JoeCapoi	Cable	60
Music\The Blue Nile Over The Hills.mp3	3,665,920	95	44100	5:04	JoeCapoi	Cable	60
Music\Blue Nile - Tinseltown in the rain.mp3	5,854,152	128	44100	5:51	emg5800	Cable	70
Music\Blue Nile - Alice Coltrane featuring Pharoah Sanders and Joe Henderson...	8,413,503	160	44100	6:56	etnrcpl...	Cable	90
Blue Nile Automocro Noise.mp3	4,934,000	128	44100	5:07	pbuote	T3	91
Blue Nile-Our Lives (J. Lopez, II, Doherty, H. New York).mp3	7,000,324	256	44100	7:00	pbuote	T3	91
Blue Nile (testwave).mp3	7,240,370	256	44100	6:25	pbuote	T3	91
The Nile-Gigs.mp3	4,754,200	120	44100	4:50	pbuote	T3	91
The Nile-Tinseltown I - The Rain.mp3	5,054,152	120	44100	5:51	pbuote	T3	91
Blue Nile-Awake Across The Field (pump).mp3	4,757,100	128	44100	4:50	pbuote	T3	91
Blue Nile - Feed Me Fruit.mp3	3,301,375	95	44100	4:34	pbuote	T3	91
Blue Nile - Play (Remix).mp3	4,747,954	128	44100	4:50	pbuote	T3	91
Music\Blue Nile - Steady.mp3	11,214,144	256	44100	5:42	toanrg...	Cable	100

Retrieved 111 results

File Size: 11 MB All File Info: 11 MB

Online (PSchuler): Sharing 2 files. Currently 232,835 files (885 gigabytes) available in 2,356 libraries



RIAA Current Issues

<http://www.riaa.com/Napster.cfm>

What is the RIAA action against Napster all about?

RIAA, on behalf of its members, sued Napster because it launched a service that enables and facilitates piracy of music on an unprecedented scale. At any single point in time, hundreds of thousands of users may be logged onto Napster offering millions of pirated sound recordings.

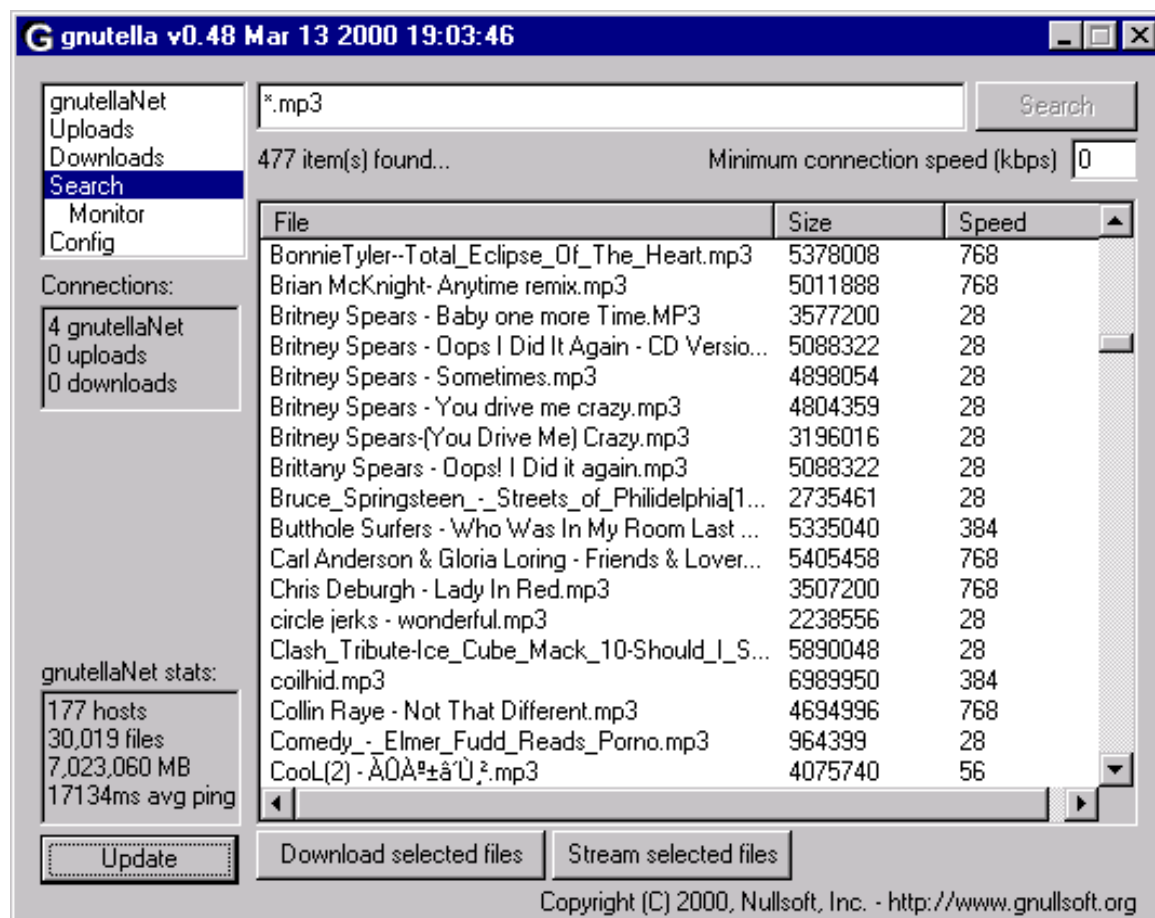
What is the service Napster is offering?

Napster has built a system that allows users who log onto Napster's servers to obtain MP3 music files that are stored on the computers of other users who are connected to the Napster system at the same time. Napster provides advanced search capabilities, as well as direct hyperlinks to the MP3 files housed on its users' computers.

Why is that wrong?

Based on our sampling, the overwhelming majority of the MP3 files offered on Napster are infringing -- and we believe Napster knows this and even encourages it. Napster is thus enabling and encouraging the illegal copying and distribution of copyrighted music. Just because Napster itself may not house the infringing recordings does not mean Napster is not guilty of copyright infringement. Copyright law has long recognized that someone who materially contributes to infringing activity, with knowledge of that activity, is liable for copyright infringement as if that person did the copying him or herself.

Is this a lawsuit to stop the use of MP3 technology?



No. The suit is against Napster, the company, not MP3 technology. Any company that offers to help distribute illegally obtained music is a problem -- whether that music is transmitted on tape, CD, or on the Internet in whatever form. No one is trying to stop technology -- all the RIAA and its members are trying to do is to put a stop to a new high-tech type of theft. Keeping someone from trying to use your ATM card doesn't mean you are trying to stop the use of ATMs. As for MP3 technology, RIAA only has a problem with the illegal uses of the format to distribute copyrighted recordings without the permission of the artist or record company. To the extent that artists use MP3 technology to distribute their work - music that they own the rights to - that's great; in fact, it's a potent example of the ways in which the Internet can connect creators and fans and produce new opportunities for the distribution of music.

What do artists think of Napster's system?

Ron Stone (who represents Tracy Chapman, Bonnie Raitt, Ziggy Marley, and others) calls Napster "the most insidious web site I've ever seen." Scott Stapp (lead singer for Creed) says Napster is "robbing me blind." Simon Renshaw (personal manager of the Dixie Chicks) said "While there are great efforts being made to ensure that the rights of the artists and songwriters are protected, Napster's apparent way of doing business sets those efforts way back." Rusty Harmon, who represents Hootie & the Blowfish, said "this type of Web site makes us sick." Gary Falcon, who represents Travis Tritt, Michael Peterson, Christy Sutherland and others, said Napster "threatens the whole artist community with its irresponsible actions."

What about consumers' rights?

This is not a consumer rights issue. There is a big difference between a consumer making a copy for his or her own personal use, and that same consumer making the file available on Napster where it can be freely downloaded by thousands of people. Not even the staunchest proponents of consumer rights have suggested that the latter is fair or lawful.

Napster's copyright protection page clearly says it revokes the ability of users to access Napster if they violate copyright law. Isn't that enough?

A few words cannot undo the harm caused by hundreds of thousands of Napster users unlawfully downloading millions of infringing music files. In any event, Napster's actions speak louder than its words. Napster is actively encouraging and facilitating the illegal copying and distribution of copyrighted music. While Napster now claims that it's all about creating a community for the new and unknown artist, that's just made up to try to help them in the litigation. Before this litigation, Napster was more forthright about its true purpose. On its web site, Napster touted itself as the "world's largest MP3 music library" that "ensures the availability of every song online." Leaving little doubt about its disregard for the unknown artist, Napster boasted that "Napster virtually guarantees you'll find the music you want, when you want it ... and you can forget about wading through page after page of unknown artists." This is unfair to the artists and musicians who have invested time and effort to create music. It is illegal, and wrong.

What have RIAA members been doing to harness technological advances in digital music?

RIAA members have embraced new technologies that enable faster, easier, and wider distribution of music, from tapes to CDs to the Internet. RIAA members have thriving e-commerce sites, are implementing cutting-edge technology, and are actively involved in the development of new business models. As demonstrated by public announcements coming out all the time, the music industry is clearly open to partnerships, joint ventures, and new distribution channels to bring music to consumers in new and exciting ways.

Aren't we all just trying to make music as widely and easily available as possible?

Yes, in fact that is precisely what RIAA and its members are doing. For example, all of the major labels (Sony, EMI, BMG, Universal, and Warner) and most of the major independent labels (Matador, Roadrunner, Beggars Banquet, TVT) have offered and will continue to offer free promotional downloads of certain singles. They work with sites like Listen.com, ArtistDirect.com, Launch.com, GetMusic.com, Rioport.com, CDNow.com, and others to distribute these tracks as well as provide webcasts of live performances, contests, chats, and other events. They have even invested in some of these companies to further solidify relationships and foster mutual marketing and promotion opportunities. On the retail front, both EMI and Universal recently announced plans to sell music downloads online as early as Spring 2000. The major labels have also partnered with, and in some cases invested in, Internet music technology companies like MusicMaker, Intertrust, Liquid Audio, AT&T, Matsushita, and Spinner.com, to name a few. Our members are actively working with the new media community to find ways to deliver music to consumers quickly and conveniently, without sacrificing sound quality. However, like anyone else, the majority of artists, musicians, and other members of creative professions want to be compensated for their efforts -- and like anyone else who invests hard work and creativity, they have the fundamental right to decide which innovative business models they want to pursue and which they do not.

<p>today: 11,787 total: 483,371</p>	<p>I was in the pub last night, and a guy asked me for a light for his cigarette. I suddenly realised that there was a demand here and money to be made, and so I agreed to light his cigarette for 10 pence, but I didn't actually give him a light, I sold him a license to burn his cigarette. My fire-license restricted him from giving the light to anybody else, after all, that fire was my property. He was drunk, and dismissing me as a loony, but accepted my fire (and by implication the licence which governed its use) anyway. Of course in a matter of minutes I noticed a friend of his asking him for a light and to my outrage he gave his cigarette to his friend and pirated my fire! I was furious, I started to make my way over to that side of the bar but to my added horror his friend then started to light other people's cigarettes left, right, and centre! Before long that whole side of the bar was enjoying MY fire without paying me anything. Enraged I went from person to person grabbing their cigarettes from their hands, throwing them to the ground, and stamping on them.</p> <p>Strangely the door staff exhibited no respect for my property rights as they threw me out the door.</p> <p>--Ian Clarke</p>
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www.gnutella.com (visited August 8, 2000)

Introduction to the MP3 Controversy

Christopher Price, *It could be time to face the music: MP3 and Illicit Recordings: Continuing litigation in the US leaves the future of MP3 technology looking uncertain at best*, FIN. TIMES, July 5, 2000, at 11. [Edited version.]

After numerous court cases, continuing litigation and the gathering wrath of the global music industry, is there really a future for MP3?

The issues for the established music industry are clear: MP3 enables the wholesale theft of the rights and royalties of musicians, record labels and retailers. The format allows computer users to download illicit sound files from the internet and play and store them on their machines.

In addition, companies such as Diamond Multimedia in the US have brought MP3 players to the market, enabling users to take their downloaded music and play on portable devices, threatening the electrical equipment market in the process.

The spread of illicit recordings has been viral. A recent report in the US estimated that 75 per cent of computer use in American universities was taken up in the pursuit of MP3 recordings. Indeed, some colleges have banned students from using the Napster music site, one of the favourite MP3 destinations, because of the capacity it uses of the college systems.

Further evidence of the growing influence of the MP3 movement came earlier this year when it emerged that the word had overtaken another three-letter word, "sex", as the most popular search word on the web.

The key challenge for the music industry when first faced with the new technology was to attempt to control it. This has proved impossible, chiefly because MP3 has proved impossible to encrypt.

Litigation, mostly in the US, has seen the closure of a number of MP3-related sites. However, there have been two high-profile cases that have crystallised the debate: Napster and MP3.com.

The former case was potentially the most dangerous for the music industry because the Napster site never actually held any MP3 files. Instead, the US company merely provides the downloadable software for users to connect with each other. Napster, which was set up by a US student two years' ago, defended its position by denying it was involved in holding any illicit music material.

The situation took a near-farcical turn recently when Metallica, the heavy rock band, obtained the names of more than 300,000 Napster users holding allegedly illegal MP3 recordings made

via the site. Other artists have threatened to follow suit, forcing Napster to block access to those users.

Meanwhile, MP3.com suffered a severe setback when a US court ruled earlier this year that it had acted illegally in enabling users of its MyMP3.com service to access illicit recordings. MyMP3.com service allowed Web surfers to gain access to full CDs online and to listen to them on any computer with Net access.

The company bought tens of thousands of CDs, created a huge database of MP3s, and then offered access to these files to anyone who said they had bought the CD themselves by placing the disk in their computer.

However, in a signal that there may be room for compromise, MP3.com last month settled a copyright infringement lawsuit with Time Warner and Bertelsmann. In addition, Warner Music and BMG, the companies' respective music divisions, entered into separate licensing agreements allowing MP3.com to use their music libraries in the My.MP3.com service.

At the same time as pursuing litigation, the music and technology industries have been developing a secure mechanism for internet music. There are several initiatives, such as the platform developed by InterTrust, the US digital rights group, and supported by a raft of music and technology companies.

The writing for MP3 appears to be on the wall: with vigorous litigation and several new developments, the future for the technology looks at best uncertain. "MP3 is being marginalised by better technology and music industry pressure," says David Phillips, chief executive of iCrunch, the independent music website.

Napster Copyright Policy, <<http://www.napster.com/terms/>> (visited Aug. 10, 2000).

Napster is an integrated browser and communications system provided by Napster, Inc., to enable musicians and music fans to locate bands and music available in the MP3 music format. The MP3 files that you locate using Napster are not stored on Napster's servers. Napster does not, and cannot, control what content is available to you using the Napster browser. Napster users decide what content to make available to others using the Napster browser, and what content to download. Users are responsible for complying with all applicable federal and state laws applicable to such content, including copyright laws.

Napster respects copyright law and expects our users to do the same. Unauthorized copying, distribution, modification, public display, or public performance of copyrighted works is an infringement of the copyright holders' rights. You should be aware that some MP3 files may have been created or distributed without copyright owner authorization. As a condition to your account with Napster, you agree that you will not use the Napster service to infringe the intellectual property rights of others in any way. Napster will terminate the accounts of users who are repeat infringers of the copyrights, or other intellectual property rights, of others. In addition, Napster reserves the right to terminate the account of a user and to block use of the Napster service permanently upon any single infringement of the rights of others in conjunction with use of the Napster service, or if Napster believes that user conduct is harmful to the interests of Napster, its affiliates, or other users, or for any other reason in Napster's sole discretion, with or without cause.

In accordance with the Digital Millennium Copyright Act of 1998 (the text of which may be found on the U.S. Copyright Office web site at <http://lcweb.loc.gov/copyright/>), Napster will respond expeditiously to claims of copyright infringement committed using the Napster service that are reported to Napster's "Designated Copyright Agent" identified below. If you are a copyright owner, or authorized to act on behalf of an owner of the copyright or of any exclusive right under the copyright, please report your notice of infringement. . . .

THE MP3 CASES

A & M Records, Inc., et al. v. Napster, Inc., 2000 U.S. Dist. LEXIS 6243 (2000).

DISPOSITION:

[*1] Defendant's motion for summary adjudication DENIED.

JUDGES:

MARILYN HALL PATEL, Chief Judge, United States District Court, Northern District of California.

On December 6, 1999, plaintiff record companies filed suit alleging contributory and vicarious federal copyright infringement and related state law violations by defendant Napster, Inc. ("Napster"). Now **[*2]** before this court is defendant's motion for summary adjudication of the applicability of a safe harbor provision of the Digital Millennium Copyright Act ("DMCA"), 17 U.S.C. section 512(a), to its business activities. Defendant argues that the entire Napster system falls within the safe harbor and, hence, that plaintiffs may not obtain monetary damages or injunctive relief; except as narrowly specified by subparagraph 512(j)(1)(B). In the alternative, Napster asks the court to find subsection 512(a) applicable to its role in downloading MP3 music files, n1 as opposed to searching for or indexing such files. Having considered the parties' arguments and for the reasons set forth below, the court enters the following memorandum and order.

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n1 The Motion Picture Experts Group first created MP3 in the early 1980s as the audio layer 3 of the MPEG-1 audiovisual format. MP3 technology allows for the fast and efficient conversion of compact disc recordings into computer files that may be downloaded over the Internet. See generally *Recording Industry Ass'n of America v. Diamond Multimedia Systems Inc.*, 180 F.3d 1072, 1073-74 (9th Cir. 1999) (discussing MP3 technology).

-----End Footnotes-----

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BACKGROUND

Napster--a small internet start-up based in San Mateo, California--makes its proprietary MusicShare software freely available for Internet users to download. Users who obtain Napster's software can then share MP3 music files with others logged-on to the Napster system. MP3 files, which reproduce nearly CD-quality sound in a compressed format, are available on a variety of websites either for a fee or free-of-charge. Napster allows users to exchange MP3 files stored on their own computer hard-drives directly, without payment, and boasts that it "takes the frustration out of locating servers with MP3 files." Def. Br. at 4.

Although the parties dispute the precise nature of the service Napster provides, they agree that using Napster typically involves the following basic steps: After downloading MusicShare software from the Napster website, a user can access the Napster system from her computer. The MusicShare software interacts with Napster's server-side software when the user logs on, automatically connecting her to one of some 150 servers that Napster operates. The MusicShare software reads a list of names of MP3 files that the user has elected to make available. **[*4]** This list is then added to a directory and index, on the Napster server, of MP3 files that users who are logged-on wish to share. If the user wants to locate a song, she enters its name or the name of the recording artist on the search page of the MusicShare program and clicks the "Find It" button. The Napster software then searches the current directory and generates a list of files responsive to the search request. To download a

desired file, the user highlights it on the list and clicks the "Get Selected Songs" button. The user may also view a list of files that exist on another user's hard drive and select a file from that list. When the requesting user clicks on the name of a file, the Napster server communicates with the requesting user's and host user's n2 MusicShare browser software to facilitate a connection between the two users and initiate the downloading of the file without any further action on either user's part.

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n2 Napster uses the term "host user" to refer to the user who makes the desired MP3 file available for downloading.

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According to Napster, when the requesting user clicks on the name of the desired MP3 file, the Napster server routes this request to the host user's browser. The host user's browser responds that it either can or cannot supply the file. If the host user can supply the file, the Napster server communicates the host's address and routing information to the requesting user's browser, allowing the requesting user to make a connection with the host and receive the desired MP3 file. See Declaration of Edward Kessler ("Kessler Dec."), Exh. B; Reply Declaration of Edward Kessler ("Kessler Reply Dec.") P 22. The parties disagree about whether this process involves a hypertext link that the Napster server-side software provides. Compare Pl. Br. at 9 with Def. Reply Br. at 10 n12. However, plaintiffs admit that the Napster server gets the necessary IP address information from the host user, enabling the requesting user to connect to the host. See Declaration of Daniel Farmer ("Farmer Dec.") P 17; Declaration of Russell J. Frackman ("Frackman Dec."), Exh. 1 (Kessler Dep.) at 103-05. The MP3 file is actually transmitted over the Internet, see, e.g., Def. Reply Br. at 3, but [*6] the steps necessary to make

that connection could not take place without the Napster server.

The Napster system has other functions besides allowing users to search for, request, and download MP3 files. For example, a requesting user can play a downloaded song using the MusicShare software. Napster also hosts a chat room.

Napster has developed a policy that makes compliance with all copyright laws one of the "terms of use" of its service and warns users that: Napster will terminate the accounts of users who are repeat infringers of the copyrights, or other intellectual property rights, of others. In addition, Napster reserves the right to terminate the account of a user upon any single infringement of the rights of others in conjunction with use of the Napster service. Kessler Dec. P 19. However, the parties disagree over when this policy was instituted and how effectively it bars infringers from using the Napster service. Napster claims that it had a copyright compliance policy as early as October 1999, but admits that it did not document or notify users of the existence of this policy until February 7, 2000.

LEGAL STANDARD

The court may grant summary [*7] adjudication of a particular claim or defense under the same standards used to consider a summary judgment motion. See Fed. R. Civ. P. 56(a), (b); *Pacific Fruit Express Co. v. Akron, Canton & Youngstown R.R. Co.*, 524 F.2d 1025, 1029-30 (9th Cir. 1975). Summary judgment shall be granted when there is no genuine issue of material fact and the movant is entitled to judgment as a matter of law. See Fed. R. Civ. 56(c).

The moving party bears the initial burden of identifying those portions of the record that demonstrate the absence of a genuine issue of material fact. The burden then shifts to the nonmoving party to "go beyond the pleadings, and by [its] own affidavits, or by the 'depositions, answers to

interrogatories, or admissions on file,' designate 'specific facts showing that there is a genuine issue for trial.'" *Celotex Corp. v. Catrett*, 477 U.S. 317, 324, 91 L. Ed. 2d 265, 106 S. Ct. 2548 (1986) (citations omitted). A dispute about a material fact is genuine "if the evidence is such that a reasonable jury could return a verdict for the nonmoving party." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 91 L. Ed. 2d 202, 106 S. Ct. 2505 (1986). [*8] The moving party discharges its burden by showing that the nonmoving party has not disclosed the existence of any "significant probative evidence tending to support the complaint." *First Nat'l Bank v. Cities Serv. Co.*, 391 U.S. 253, 290, 20 L. Ed. 2d 569, 88 S. Ct. 1575 (1968). The court does not make credibility determinations in considering a motion for summary judgment. See *Anderson*, 477 U.S. at 249. Rather, it views the inferences drawn from the facts in the light most favorable to the party opposing the motion. See *T.W. Elec. Serv., Inc. v. Pacific Elec. Contractors Ass'n*, 809 F.2d 626, 631 (9th Cir. 1987).

DISCUSSION

Section 512 of the DMCA addresses the liability of online service and Internet access providers for copyright infringements occurring online. Subsection 512(a) exempts qualifying service providers from monetary liability for direct, vicarious, and contributory infringement and limits injunctive relief to the degree specified in subparagraph 512(j)(1)(B). Interpretation of subsection 512(a), or indeed any of the section 512 safe harbors, appears to be an issue of first impression. n3

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n3 In *Universal City Studios, Inc. v. Reimerdes*,⁸² *F. Supp. 2d* 211, 217 & n.17 (S.D.N.Y. 2000), one defendant sought protection under subsection 512(c). Although the court noted in passing that the defendant offered no evidence that he was a service provider under subsection 512(c), it held that he could not invoke the safe harbor because plaintiffs

claimed violations of 17 U.S.C. section 1201(a), which applies to circumvention products and technologies, rather than copyright infringement.

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Napster claims that its business activities fall within the safe harbor provided by subsection 512(a). This subsection limits liability "for infringement of copyright by reason of the [service] 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," if five conditions are satisfied:

- (1) the transmission of the material was initiated by or at the direction of a person other than the service provider;
 - (2) the transmission, routing, provision of connections, or storage is carried out through an automatic technical process without selection of the material by the service provider;
 - (3) the service provider does not select the recipients of the material except as an automatic response to the request of another person;
 - (4) no copy of the material made by the service provider in the course of such intermediate or transient storage is maintained on the system or network in a manner ordinarily accessible to anyone other than the anticipated [*10] recipients, and no such copy is maintained on the system or network in a manner ordinarily accessible to such anticipated recipients for a longer period than is reasonably necessary for the transmission, routing, or provision of connections; and
 - (5) the material is transmitted through the system or network without modification of its content.
- 17 U.S.C. § 512(a).

Citing the "definitions" subsection of the statute, Napster argues that it is a "service provider" for the

purposes of the 512(a) safe harbor. See 17 U.S.C. § 512(k)(1)(A).ⁿ⁴ First, it claims to offer the "transmission, routing, or providing of connections for digital online communications" by enabling the connection of users' hard-drives and the transmission of MP3 files "directly from the Host hard drive and Napster browser through the Internet to the user's Napster browser and hard drive." Def. Reply Br. at 3. Second, Napster states that users choose the online communication points and the MP3 files to be transmitted with no direction from Napster. Finally, the Napster system does not modify the content of the transferred files. Defendant contends that, because [*11] it meets the definition of "service provider,"ⁿ⁵ it need only satisfy the five remaining requirements of the safe harbor to prevail in its motion for summary adjudication.

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ⁿ⁴ Subparagraph 512(k)(1)(A) provides:

As used in subsection (a), the term "service provider" means as entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material sent or received.

Subparagraph 512(k)(1)(B) states:

As used in this section, other than subsection (a), the term "service provider" means a provider of online services or network access, or the operator of facilities therefor, and includes an entity described in subparagraph (A).

ⁿ⁵ It is not entirely clear to the court that Napster qualifies under the narrower subparagraph 512(k)(1)(A). However, plaintiffs appear to concede that Napster is a "service provider" within the meaning of subparagraph 512(k)(1)(A), arguing instead that Napster does not satisfy the additional limitations that the prefatory language of subsection

512(a) imposes. The court assumes, but does not hold, that Napster is a "service provider" under subparagraph 512(k)(1)(A).

-----End Footnotes-----

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Defendant then seeks to show compliance with these requirements by arguing: (1) a Napster user, and never Napster itself, initiates the transmission of MP3 files; (2) the transmission occurs through an automatic, technical process without any editorial input from Napster; (3) Napster does not choose the recipients of the MP3 files; (4) Napster does not make a copy of the material during transmission; and (5) the content of the material is not modified during transmission. Napster maintains that the 512(a) safe harbor thus protects its core function--"transmitting, routing and providing connections for sharing of the files its users choose." Def. Reply Br. at 2.

Plaintiffs disagree. They first argue that subsection 512(n) requires the court to analyze each of Napster's functions independently and that not all of these functions fall under the 512(a) safe harbor. In their view, Napster provides information location tools--such as a search engine, directory, index, and links--that are covered by the more stringent eligibility requirements of subsection 512(d), rather than subsection 512(a).

Plaintiffs also contend that Napster does not perform the function which the 512(a) safe harbor [*13] protects because the infringing material is not transmitted or routed *through* the Napster system, as required by subsection 512(a). They correctly note that the definition of "service provider" under subparagraph 512(k)(1)(A) is not identical to the prefatory language of subsection 512(a). The latter imposes the additional requirement that transmitting, routing, or providing connections must occur "through the system or network." Plaintiffs argue in the alternative that, if users' computers are part of the Napster system, copies of MP3 files are stored on

the system longer than reasonably necessary for transmission, and thus subparagraph 512(a)(4) is not satisfied.

Finally, plaintiffs note that, under the general eligibility requirements established in subsection 512(i), a service provider must have adopted, reasonably implemented, and informed its users of a policy for terminating repeat infringers. Plaintiffs contend that Napster only adopted its copyright compliance policy after the onset of this litigation and even now does not discipline infringers in any meaningful way. Therefore, in plaintiffs' view, Napster fails to satisfy the DMCA's threshold eligibility requirements [*14] or show that the 512(a) safe harbor covers any of its functions.

I. Independent Analysis of Functions

Subsection 512(n) of the DMCA states: Subsections (a), (b), (c), and (d) describe separate and distinct functions for purposes of applying this section. Whether a service provider qualifies for the limitation on liability in any one of those subsections shall be based solely on the criteria in that subsection and shall not affect a determination of whether that service provider qualifies for the limitations on liability under any other such subsections.

Citing subsection 512(n), plaintiffs argue that the 512(a) safe harbor does not offer blanket protection to Napster's entire system. Plaintiffs consider the focus of the litigation to be Napster's function as an information location tool--eligible for protection, if at all, under the more rigorous subsection 512(d). They contend that the system does not operate as a passive conduit within the meaning subsection 512(a). In this view, Napster's only possible safe harbor is subsection 512(d), which applies to service providers "referring or linking users to an online location containing infringing material [*15] or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link. . . ." Subsection 512(d) imposes more

demanding eligibility requirements because it covers active assistance to users.

Defendant responds in two ways. First, it argues that subsection 512(a), rather than 512(d), applies because the information location tools it provides are incidental to its core function of automatically transmitting, routing, or providing connections for the MP3 files users select. In the alternative, defendant maintains that, even if the court decides to analyze the information location functions under 512(d), it should hold that the 512(a) safe harbor protects other aspects of the Napster service.

Napster undisputedly performs some information location functions. The Napster server stores a transient list of the files that each user currently logged-on to that server wants to share. See, e.g., Kessler Dec. P 12. This data is maintained until the user logs off but the structure of the index itself continues to exist. See Frackman Dec., Exh. 1 (Kessler Dep.), at 71:3-4, 16-21; 77:8. If a user wants to find a particular song or [*16] recording artist, she enters a search, and Napster looks for the search terms in the index. See *id.* at 76:17-25, 77:1-2. Edward Kessler, Napster's Vice President of Engineering, admitted in his deposition that, at least in this context, Napster functions as a free information location tool. See *id.* at 21:12-19; cf. Farmer Dec. P 16 (stating that "Napster operates exactly like a search engine or information location tool to the user"). Napster software also has a "hot list" function that allows users to search for other users' log-in names and receive notification when users with whom they might want to communicate have connected to the service. See Frackman Dec., Exh. 1 (Kessler Dep.), at 59:16-18. In short, the parties agree on the existence of a searchable directory and index, and Napster representatives have used the phrase "information location tool," which appears in the heading for subsection 512(d), to characterize some Napster functions.

There the agreement ends. According to Napster, the information location tools upon which plaintiffs base their argument are incidental to the system's core function of transmitting MP3 music files, and for this reason, the [*17] court should apply subsection 512(a). Napster also disputes the contention that it organizes files or provides links to other Internet sites in the same manner as a search engine like Yahoo!. See Kessler Reply Dec. PP 16-20 (discussing differences between Napster and other search engines). Consequently, it deems subsection 512(d) inapplicable to its activities. Cf. *H.R. Rep. No. 105-551 (II), 105th Cong., 2d Sess. (1998), 1998 WL 414916*, at *147 (using Yahoo! as an example of an information location tool covered by 512(d)). Napster contrasts its operations, which proceed automatically after initial stimuli from users, with search engines like Yahoo! that depend upon the "human judgment and editorial discretion" of the service provider's staff. *Id.*

Napster's final and most compelling argument regarding subsection 512(d) is that the DMCA safe harbors are not mutually exclusive. According to subsection 512(n), a service provider could enjoy the 512(a) safe harbor even if its information location tools were also protected by (or failed to satisfy) subsection 512(d). See *17 U.S.C. § 512(n)* ("Whether a service provider qualifies for the [*18] limitation on liability in any one of those subsections . . . shall, not affect a determination of whether that service provider qualifies for the limitations on liability under any other such subsections.") Similarly, finding *some* aspects of the system outside the scope of subsection 512(a) would not preclude a ruling that *other* aspects *do* meet 512(a) criteria.

Because the parties dispute material issues regarding the operation of Napster's index, directory, and search engine, the court declines to hold that these functions are peripheral to the alleged infringement, or that they should not be analyzed separately under subsection 512(d). n6 Indeed,

despite its contention that its search engine and indexing functions are incidental to the provision of connections and transmission of MP3 files, Napster has advertised the ease with which its users can locate "millions of songs" online without "wading through page after page of unknown artists." Frackman Dec., Exh. 5, 4. Such statements by Napster to promote its service are tantamount to an admission that its search and indexing functions are essential to its marketability. Some of these essential functions--including but [*19] not limited to the search engine and index--should be analyzed under subsection 512(d).

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n6 The court need not rule on the applicability of subsection 512(d) to the functions plaintiffs characterize as information location tools because defendant does not rely on subsection 512(d) as grounds for its motion for summary adjudication.

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However, the potential applicability of subsection 512(d) does not completely foreclose use of the 512(a) safe harbor as affirmative defense. See *17 U.S.C. § 512(n)*. The court will now turn to Napster's eligibility for protection under subsection 512(a). It notes at the outset, though, that a ruling that subsection 512(a) applies to a given function would not mean that the DMCA affords the service provider blanket protection.

II. Subsection 512(a)

Plaintiffs' principal argument against application of the 512(a) safe harbor is that Napster does not perform the passive conduit function eligible for protection under this subsection. As defendant [*20] correctly notes, the words "conduit" or "passive conduit" appear nowhere in 512(a), but are found only in the legislative history and summaries of the DMCA. The court must look first to the plain language of the statute, "construing the provisions of

the entire law, including its object and policy, to ascertain the intent of Congress." *United States v. Hockings*, 129 F.3d 1069, 1071 (9th Cir. 1997) (quoting *Northwest Forest Resource Council v. Glickman*, 82 F.3d 825, 830 (9th Cir. 1996)) (internal quotation marks omitted). If the statute is unclear, however, the court may rely on the legislative history. See *Hockings*, 129 F.3d at 1071. The language of subsection 512(a) makes the safe harbor applicable, as a threshold matter, to service providers "transmitting, routing or providing connections for, material *through a system or network* controlled or operated by or for the service provider. . . ." 17 U.S.C. § 512(a) (emphasis added). According to plaintiffs, the use of the word "conduit" in the legislative history explains the meaning of "through a system."

Napster has expressly denied that the transmission [*21] of MP3 files ever passes through its servers. See Kessler Dec. P 14. Indeed, Kessler declared that "files reside on the computers of Napster users, and are transmitted directly between those computers." *Id.* MP3 files are transmitted "from the Host user's hard drive and Napster browser, *through the Internet* to the recipient's Napster browser and hard drive." Def. Reply Br. at 3 (citing Kessler Dec. P 12-13) (emphasis added). The internet cannot be considered "a system or network controlled or operated by or for the service provider," however. 17 U.S.C. § 512(a). To get around this problem, Napster avers (and plaintiffs seem willing to concede) that "Napster's servers and Napster's MusicShare browsers on its users' computers are all part of Napster's overall system." Def. Reply Br. at 5. Defendant narrowly defines its system to include the browsers on users' computers. See Kessler Dec. P 13. In contrast, plaintiffs argue that either (1) the system does not include the browsers, or (2) it includes not only the browsers, but also the users' computers themselves, See Farmer Dec. P 17.

Even assuming that the system includes the browser on each [*22] user's computer, the MP3

files are not transmitted "through" the system within the meaning of subsection 512(a). Napster emphasizes the passivity of its role--stating that "all files transfer directly from the computer of one Napster user *through the Internet* to the computer of the requesting user." Def. Br. at 5 (emphasis added); see also *id.* at 12 (citing Kessler Dec. P 13-15). It admits that the transmission bypasses the Napster server. See Kessler Dec. P 14; Def. Reply Br. at 6. This means that, even if each user's Napster browser is part of the system, the transmission goes *from* one part of the system *to* another, or *between* parts of the system, but not "through" the system. The court finds that subsection 512(a) does not protect the transmission of MP3 files.

The prefatory language of subsection 512(a) is disjunctive, however. The subsection applies to "infringement of copyright by reason of the provider's transmitting, routing, *or* providing connections through a system or network controlled or operated by or for the service provider." 17 U.S.C. § 512(a) (emphasis added). The court's finding that transmission does not occur [*23] "through" the system or network does not foreclose the possibility that subsection 512(a) applies to "routing" or "providing connections." Rather, each of these functions must be analyzed independently.

Napster contends that providing connections between users' addresses "constitutes the value of the system to the users and the public." Def. Br. at 15. This connection cannot be established without the provision of the host's address to the Napster browser software installed on the requesting user's computer. See Kessler Dec. P 10-13. The central Napster server delivers the host's address. See *id.* While plaintiffs contend that the infringing material is not *transmitted* through the Napster system, they provide no evidence to rebut the assertion that Napster supplies the requesting user's computer with information necessary to facilitate a connection with the host.

Nevertheless, the court finds that Napster does not provide connections "through" its system. Although the Napster server conveys address information to establish a connection between the requesting and host users, the connection itself occurs through the Internet. The legislative history of section 512 demonstrates [*24] that Congress intended the 512(a) safe harbor to apply only to activities "in which a service provider plays the role of a 'conduit' for the communications of others." H.R. Rep. No. 105-551(II), 105th Cong., 2d Sess. (1998), 1998 WL 414976, at *130. Drawing inferences in the light most favorable to the non-moving party, this court cannot say that Napster serves as a conduit for the connection itself, as opposed to the address information that makes the connection possible. Napster enables or facilitates the initiation of connections, but these connections do not pass through the system within the meaning of subsection 512(a).

Neither party has adequately briefed the meaning of "routing" in subsection 512(a), nor does the legislative history shed light on this issue. Defendant tries to make "routing" and "providing connections" appear synonymous--stating, for example, that "the central Napster server *routes* the transmission by providing the Host's address to the Napster browser that is installed on and in use by User's computer." Def. Br. at 16. However, the court doubts that Congress would have used the terms "routing" and "providing connections" disjunctively if [*25] they had the same meaning. n7 It is clear from both parties' submissions that the route of the allegedly infringing material goes through the Internet from the host to the requesting user, not through the Napster server. See, e.g., Def. Br. at 13 ("Indeed, the content of the MP3 files are routed without even passing through Napster's Servers."). The court holds that routing does not occur through the Napster system.

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n7 Napster sometimes appears to recognize a distinction between the two terms. For example, it states that "the system provides remote users with connection to each other and allows them to transmit and route the information as they choose." Def. Reply Br. at 2.

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Because Napster does not transmit, route, or provide connections through its system, it has failed to demonstrate that it qualifies for the 512(a) safe harbor. The court thus declines to grant summary adjudication in its favor.

III. Copyright Compliance Policy

Even if the court had determined that Napster meets the criteria [*26] outlined in subsection 512(a), subsection 512(i) imposes additional requirements on eligibility for *any* DMCA safe harbor. This provision states:

The limitations established by this section shall apply to a service provider only if the service provider-

(A) has adopted and reasonably implemented, and informs subscribers and account holders of the service provider's system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider's system or network who are repeat infringers; and

(B) accommodates and does not interfere with standard technical measures.

17 U.S.C. § 512(i).

Plaintiffs challenge Napster's compliance with these threshold eligibility requirements on two grounds. First, they point to evidence from Kessler's deposition that Napster did not adopt a written policy of which its users had notice until on or around February 7, 2000--two months after the filing of this lawsuit. See Frackman Dec., Exh. 1 (Kessler Dep.) at 189:17-25, 190:1-25, 191:1-12. Kessler testified that, although Napster had a copyright compliance

policy as early [*27] as October 1999, he is not aware that this policy was reflected in any document see id at 191:22-24, 192:9-11, or communicated to any user. See id. at 192:15-16. Congress did not intend to require a service provider to "investigate possible infringements, monitor its service or make difficult judgments as to whether conduct is or is not infringing," but the notice requirement is designed to insure that flagrant or repeat infringers "know that there is a realistic threat of losing [their] access." H.R. Rep. 105-551(II), 1998 WL 414916, at *154.

Napster attempts to refute plaintiffs' argument by noting that subsection 512(i) does not specify when the copyright compliance policy must be in place. Although this characterization of subsection 512(i) is facially accurate, it defies the logic of making formal notification to users or subscribers a prerequisite to exemption from monetary liability. The fact that Napster developed and notified its users of a formal policy *after* the onset of this action should not moot plaintiffs' claim to monetary relief for past harms. Without further documentation, defendant's argument that it has satisfied subsection 512(i) is [*28] merely conclusory and does not support summary adjudication in its favor.

Summary adjudication is also inappropriate because Napster has not shown that it *reasonably* implemented a policy for terminating repeat infringers. See 17 U.S.C. § 512(i)(A) (requiring "reasonable" implementation of such a policy). If Napster is formally notified of infringing activity, it blocks the infringer's password so she cannot log on to the Napster service using that password. See Kessler Dec. P 23. Napster does not block the IP addresses of infringing users, however, and the parties dispute whether it would, be feasible or effective to do so. See Frackman Dec., Exh. 1 (Kessler Dep.), at 205:4-7.

Plaintiffs aver that Napster wilfully turns a blind eye to the identity of its users -- that is, their real names and physical addresses -- because their anonymity

allows Napster to disclaim responsibility for copyright infringement. Hence, plaintiffs contend, "infringers may readily reapply to the Napster system to recommence their infringing downloading and uploading of MP3 music files." Pl. Br. at 24. Plaintiffs' expert, computer security researcher Daniel Farmer, [*29] declared that he conducted tests in which he easily deleted all traces of his former Napster identity, convincing Napster that "it had never seen me or my computer before." Farmer Dec. P 29. Farmer also cast doubt on Napster's contention that blocking IP addresses is not a reasonable means of terminating infringers. He noted that Napster bans the IP addresses of users who runs "bots" n8 on the service. See id. P 27.

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n8 Farmer informed that court that "A bot" is a robot, or program, that performs actions continuously, in a sort of manic or robotic fashion." Farmer Dec. P 27.

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Hence, plaintiffs raise genuine issues of material fact about whether Napster has reasonably implemented a policy of terminating repeat infringers. They have produced evidence that Napster's copyright compliance policy is neither timely nor reasonable within the meaning of subparagraph 512(i)(A).

CONCLUSION

This court has determined above that Napster does not meet the requirements of subsection 512(a) because it does not [*30] transmit, route, or provide connections for allegedly infringing material through its system. The court also finds summary adjudication inappropriate due to the existence of genuine issues of material fact about Napster's compliance with subparagraph 512(i)(A), which a service provider must satisfy to enjoy the protection of *any* section 512 safe harbor. Defendant's motion for summary adjudication is DENIED.

A&M Records, Inc., et al. v. Napster, Inc., 2000 U.S. App. LEXIS 18688.

DISPOSITION:

Casanova Records' motion to file brief amicus curiae GRANTED; Emergency motions for stay and to expedite appeal GRANTED; Preliminary injunction issued by district court STAYED.

JUDGES:

Before: KOZINSKI and SILVERMAN, Circuit Judges.

ORDER

Appellant having raised substantial questions of first impression going to both the merits and the form of the injunction, the emergency motions for stay and to expedite the appeal are

GRANTED.

The preliminary injunction issued by the district court in this matter is **STAYED** pending further order of this court.

The briefing schedule is as follows: Appellant's opening brief is due August 18, 2000; appellees' consolidated answering brief is due September 8, 2000; and the optional reply brief is due September 12, 2000.

Recording Industry Association of America v. Diamond Multimedia Systems Inc., 180 F.3d 1072 (1999).

PRIOR HISTORY:

[**1] Appeal from the United States District Court for the Central District of California. D.C. No. CV-98-08247-ABC. Audrey B. Collins, District Judge, Presiding.

O'SCANNLAIN, Circuit Judge:

In this case involving the intersection of computer technology, the Internet, and music listening, we must decide whether the Rio portable music player is a digital audio recording device subject to the restrictions of the Audio Home Recording Act of 1992.

I

This appeal arises from the efforts of the [**2] Recording Industry Association of America and the Alliance of Artists and Recording Companies (collectively, "RIAA") to enjoin the manufacture and distribution by Diamond Multimedia Systems ("Diamond") of the Rio portable music player. The Rio is a small device (roughly the size of an audio cassette) with headphones that allows a user to download MP3 audio files from a computer and to listen to them elsewhere. The dispute over the Rio's design and function is difficult to comprehend without an understanding of the revolutionary new method of music distribution made possible by digital recording and the Internet; thus, we will explain in some detail the brave new world of Internet music distribution.

A

The introduction of digital audio recording to the consumer electronics market in the 1980's is at the root of this litigation. Before then, a person wishing to copy an original music recording - e.g., wishing to make a cassette tape of a record or compact disc - was limited to analog, rather than digital, recording technology. With analog recording, each successive generation of copies suffers from an increasingly pronounced degradation in sound quality. For example, when an analog [**3] cassette copy of a record or compact disc is itself copied by analog technology, the resulting "second-generation"

copy of the original will most likely suffer from the hiss and lack of clarity characteristic of older recordings. With digital recording, by contrast, there is almost no degradation in sound quality, no matter how many generations of copies are made. Digital copying thus allows thousands of perfect or near perfect copies (and copies of copies) to be made from a single original recording. Music "pirates" use digital recording technology to make and to distribute near perfect copies of commercially prepared recordings for which they have not licensed the copyrights.

Until recently, the Internet was of little use for the distribution of music because the average music computer file was simply too big: the digital information on a single compact disc of music required hundreds of computer floppy discs to store, and downloading even a single song from the Internet took hours. However, various compression algorithms (which make an audio file "smaller" by limiting the audio [*1074] bandwidth) now allow digital audio files to be transferred more quickly and stored more efficiently. [**4] MPEG-1 Audio Layer 3 (commonly known as "MP3") is the most popular digital audio compression algorithm in use on the Internet, and the compression it provides makes an audio file "smaller" by a factor of twelve to one without significantly reducing sound quality. MP3's popularity is due in large part to the fact that it is a standard, non-proprietary compression algorithm freely available for use by anyone, unlike various proprietary (and copyright-secure) competitor algorithms. Coupled with the use of cable modems, compression algorithms like MP3 may soon allow an hour of music to be downloaded from the Internet to a personal computer in just a few minutes.

These technological advances have occurred, at least in part, to the traditional music industry's disadvantage. By most accounts, the predominant use of MP3 is the trafficking in illicit audio recordings, presumably because MP3

files do not contain codes identifying whether the compressed audio material is copyright protected. Various pirate websites offer free downloads of copyrighted material, and a single pirate site on the Internet may contain thousands of pirated audio computer files.

RIAA represents the roughly half-dozen ^[**5] major record companies (and the artists on their labels) that control approximately ninety percent of the distribution of recorded music in the United States. RIAA asserts that Internet distribution of serial digital copies of pirated copyrighted material will discourage the purchase of legitimate recordings, and predicts that losses to digital Internet piracy will soon surpass the \$300 million that is allegedly lost annually to other more traditional forms of piracy. ⁿ¹ RIAA fights a well-nigh constant battle against Internet piracy, monitoring the Internet daily, and routinely shutting down pirate websites by sending cease-and-desist letters and bringing lawsuits. There are conflicting views on RIAA's success - RIAA asserts that it can barely keep up with the pirate traffic, while others assert that few, if any, pirate sites remain in operation in the United States and illicit files are difficult to find and download from anywhere online.

----- Footnotes-----

ⁿ¹ Whether or not piracy causes such financial harm is a subject of dispute. Critics of the industry's piracy loss figures have noted that a willingness to download illicit files for free does not necessarily correlate to lost sales, for the simple reason that persons willing to accept an item for free often will not purchase the same item, even if no longer freely available. *See* Lewis Kurlantzick & Jacqueline E. Pennino, *The Audio Home Recording Act of 1992 and the Formation of Copyright Policy*, 45 J. Copyright Soc'y U.S.A. 497, 506 (1998). Critics further note that the price of commercially available recordings already reflects the existence of copying and the benefits and harms such copying causes; thus, they contend, the current price of recordings offsets, at least in

part, the losses incurred by the industry from home taping and piracy. *See id.* at 509-10.

----- End Footnotes----- ^[**6]

In contrast to piracy, the Internet also supports a burgeoning traffic in legitimate audio computer files. Independent and wholly Internet record labels routinely sell and provide free samples of their artists' work online, while many unsigned artists distribute their own material from their own websites. Some free samples are provided for marketing purposes or for simple exposure, while others are teasers intended to entice listeners to purchase either mail order recordings or recordings available for direct download (along with album cover art, lyrics, and artist biographies). Diamond cites a 1998 "Music Industry and the Internet" report by Jupiter Communications which predicts that online sales for pre-recorded music will exceed \$1.4 billion by 2002 in the United States alone.

Prior to the invention of devices like the Rio, MP3 users had little option other than to listen to their downloaded digital audio files through headphones or speakers at their computers, playing them from their hard drives. The Rio renders these files portable. More precisely, once an audio file has been downloaded onto a computer hard drive from the Internet or some other source (such as a compact disc ^[**7] player or ^[*1075] digital audio tape machine), separate computer software provided with the Rio (called "Rio Manager") allows the user further to download the file to the Rio itself via a parallel port cable that plugs the Rio into the computer. The Rio device is incapable of effecting such a transfer, and is incapable of receiving audio files from anything other than a personal computer equipped with Rio Manager. Generally, the Rio can store approximately one hour of music, or sixteen hours of spoken material (e.g., downloaded newscasts or books on tape). With the addition of flash memory cards, the Rio can store an additional half-hour or hour of music. The Rio's sole output is an analog audio signal sent to the user via headphones. The Rio cannot make duplicates of any digital audio file it stores, nor can it transfer

or upload such a file to a computer, to another device, or to the Internet. However, a flash memory card to which a digital audio file has been downloaded can be removed from one Rio and played back in another.

B

RIAA brought suit to enjoin the manufacture and distribution of the Rio, alleging that the Rio does not meet the requirements for digital audio recording devices [**8] under the Audio Home Recording Act of 1992, *17 U.S.C. § 1001 et seq.* (the "Act"), because it does not employ a Serial Copyright Management System ("SCMS") that sends, receives, and acts upon information about the generation and copyright status of the files that it plays. *See id.* § 1002(a)(2). n2 RIAA also sought payment of the royalties owed by Diamond as the manufacturer and distributor of a digital audio recording device. *See id.* § 1003.

----- Footnotes-----

n2 At the time the preliminary injunction was sought and denied, the Rio did not incorporate SCMS; Diamond asserts that it has now incorporated such a system into the Rio Manager software, though not into the Rio itself.

----- End Footnotes-----

The district court denied RIAA's motion for a preliminary injunction, holding that RIAA's likelihood of success on the merits was mixed and the balance of hardships did not tip in RIAA's favor. *See generally Recording Indus. Ass'n of America, Inc. v. Diamond Multimedia Sys., Inc.*, 29 F. Supp. 2d 624 (C.D. Cal. 1998) ("*RIAA I*"). RIAA [**9] brought this appeal.

II

The initial question presented is whether the Rio falls within the ambit of the Act. The Act does not broadly prohibit digital serial copying of copyright protected audio recordings. Instead, the Act places restrictions only upon a specific type of recording device. Most relevant here, the Act provides that "no person shall import, manufacture, or distribute any *digital audio recording device* . . . that does not conform to the Serial Copy Management System ["SCMS"] [or] a system that has the same functional

characteristics." *17 U.S.C. § 1002(a)(1), (2)* (emphasis added). The Act further provides that "no person shall import into and distribute, or manufacture and distribute, any *digital audio recording device* . . . unless such person records the notice specified by this section and subsequently deposits the statements of account and applicable royalty payments." *Id.* § 1003(a) (emphasis added). Thus, to fall within the SCMS and royalty requirements in question, the Rio must be a "digital audio recording device," which the Act defines through a set of nested definitions.

The Act defines a "digital audio recording device" as:

any machine [**10] or device of a type commonly distributed to individuals for use by individuals, whether or not included with or as part of some other machine or device, the digital recording function of which is designed or marketed for the primary purpose of, and that is capable of, making a *digital audio copied recording* for private use . . .

Id. § 1001(3) (emphasis added).

A "digital audio copied recording" is defined as: [**1076]

a reproduction in a digital recording format of a *digital musical recording*, whether that reproduction is made directly from another digital musical recording or indirectly from a transmission.

Id. § 1001(1) (emphasis added).

A "digital musical recording" is defined as: *a material object-*

(i) in which are fixed, in a digital recording format, *only sounds, and material, statements, or instructions incidental to those fixed sounds*, if any, and

(ii) from which the sounds and material can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.

Id. § 1001(5)(A) (emphasis added).

In sum, to be a digital audio recording device, the Rio must be able to [**11] reproduce, either "directly" or "from a transmission," a "digital music recording."

III

We first consider whether the Rio is able directly to reproduce a digital music recording - which is a specific type of material object in which only sounds are fixed (or material and instructions incidental to those sounds). *See id.*

A

The typical computer hard drive from which a Rio directly records is, of course, a material object. However, hard drives ordinarily contain much more than "only sounds, and material, statements, or instructions incidental to those fixed sounds." *Id.* Indeed, almost all hard drives contain numerous programs (e.g., for word processing, scheduling appointments, etc.) and databases that are not incidental to any sound files that may be stored on the hard drive. Thus, the Rio appears not to make copies from digital music recordings, and thus would not be a digital audio recording device under the Act's basic definition unless it makes copies from transmissions.

Moreover, the Act expressly provides that the term "digital musical recording" does not include: *a material object-*

- (i) in which the fixed sounds consist entirely of spoken word recordings, [**12] or
- (ii) *in which one or more computer programs are fixed*, except that a digital recording may contain statements or instructions constituting the fixed sounds and incidental material, and statements or instructions to be used directly or indirectly in order to bring about the perception, reproduction, or communication of the fixed sounds and incidental material.

Id. § 1001(5)(B) (emphasis added). As noted previously, a hard drive is a material object in which one or more programs are fixed; thus, a hard drive is excluded from the definition of digital music recordings. This provides confirmation that the Rio does not record "directly" from "digital music recordings," and therefore could not be a digital audio recording device unless it makes copies "from transmissions."

B

The district court rejected the exclusion of computer hard drives from the definition of digital music recordings under the statute's plain language n3 (after noting its "superficial appeal") because it concluded that such exclusion "is ultimately unsupported by the legislative history, and contrary to the spirit and purpose of the [Act]." *RIAA I*, 29 F. Supp. 2d at 629. We need not resort [**13] to the legislative history because the statutory language is clear. *See City of Auburn v. United States*, 154 F.3d 1025, 1030 (9th Cir. 1998) ("Where statutory command is straightforward, 'there is no reason to resort to legislative [*1077] history.'" (quoting *United States v. Gonzales*, 520 U.S. 1, 6, 137 L. Ed. 2d 132, 117 S. Ct. 1032 (1997))). Nevertheless, we will address the legislative history here, because it is consistent with the statute's plain meaning and because the parties have briefed it so extensively. n4

----- Footnotes-----

n3 We can, of course, affirm on any grounds supported by the record, *see Gemtel Corp. v. Community Redevelopment Agency of City of Los Angeles*, 23 F.3d 1542, 1546 (9th Cir. 1994), thus, we can affirm even if the lower court relied on incorrect grounds or faulty reasoning, *see Aronson v. Resolution Trust Corp.*, 38 F.3d 1110, 1114 (9th Cir. 1994). n4 There is no precedent (other than the district court's order) to guide the panel's interpretation of the Act. The Act has only been discussed once in a published opinion by another federal court, and there, only to explain why it had no effect on the Copyright Act provisions at issue in that case. *See ABKCO Music, Inc. v. Stellar Records, Inc.*, 96 F.3d 60, 65-66 (2d Cir. 1996) (rejecting the contention that the Act changed or affected the definition of "phonorecord" in the Copyright Act).

----- End Footnotes----- [**14]

1

The Senate Report states that "if the material object contains computer programs or data bases that are not incidental to the fixed sounds, then the material object would not qualify" under the basic definition of a digital musical recording.

n5 S. Rep. 102-294 (1992), *reprinted at* 1992 WL 133198, at *118-19. The Senate Report further states that the definition "is intended to cover those objects commonly understood to embody sound recordings and their underlying works." *Id.* at *97. A footnote makes explicit that this definition only extends to the material objects in which songs are normally fixed: "that is recorded compact discs, digital audio tapes, audio cassettes, long-playing albums, digital compact cassettes, and mini-discs." *Id.* at n.36. There are simply no grounds in either the plain language of the definition or in the legislative history for interpreting the term "digital musical recording" to include songs fixed on computer hard drives.

----- Footnotes-----

n5 The Senate Report discusses the original term "audiogram," which was replaced by the term "digital music recording," but the two definitions are nearly identical, with the only difference being the deletion from the "audiogram" definition of examples of material objects in which things other than sounds are fixed. *Compare* S. Rep. 102-294, at *4-5 ("An 'audiogram' is a material object (i) in which are fixed, by any method now known or later developed, only sounds (*and not, for example, a motion picture or other audiovisual work even though it may be accompanied by sounds*), and material, statements or instructions incidental to those fixed sounds, if any, and (ii) from which the sounds and material can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.") (emphasis added), *with* 17 U.S.C. § 1001(5)(A) ("A 'digital music recording' is a material object - (i) in which are fixed, in a digital recording format, only sounds, and material, statements, or instructions incidental to those fixed sounds, if any, and (ii) from which the sounds and material can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device."). Thus, comments in the legislative history regarding the "audiogram"

definition are relevant to our interpretation of the "digital music recording" definition.

----- End Footnotes----- [**15]

RIAA contends that the legislative history reveals that the Rio does not fall within the specific exemption from the digital musical recording definition of "a material object in which one or more computer programs are fixed." 17 U.S.C. § 1001(5)(B)(ii). The House Report describes the exemption as "revisions reflecting exemptions for talking books and *computer programs*." H.R. Rep. 102-873(I) (1992), *reprinted at* 1992 WL 232935, at *35 (emphasis added); *see also id.* at *44 ("In addition to containing an *express exclusion of computer programs* in the definition of 'digital musical recording'. . .") (emphasis added). We first note that limiting the exemption to computer programs is contrary to the plain meaning of the exemption. As Diamond points out, a computer program is not a material object, but rather, a literary work, *see, e.g., Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1249 (3d Cir. 1983) ("[A] computer program . . . is a 'literary work.'"), that can be fixed in a variety of material objects, *see* 17 U.S.C. § 101 ("'Literary works' are works . . . expressed in words, numbers, or other verbal or numerical symbols or indicia, [**16] *regardless of the nature of the material objects, such* [*1078] *as books . . . tapes, disks, or cards, in which they are embodied.*") (emphasis added). Thus, the plain language of the exemption at issue does not exclude the copying of programs from coverage by the Act, but instead, excludes copying from various types of material objects. Those objects include hard drives, which indirectly achieve the desired result of excluding copying of programs. But by its plain language, the exemption is not limited to the copying of programs, and instead extends to any copying from a computer hard drive. Moreover, RIAA's assertion that computer hard drives do not fall within the exemption is irrelevant because, regardless of that portion of the legislative history which addresses the *exemption* from the definition of digital music

recording, *see id.* § 1001(5)(B)(ii), the Rio does not reproduce files from something that falls within the plain language of the basic *definition* of a digital music recording, *see id.* § 1001(5)(A).

2

The district court concluded that the exemption of hard drives from the definition of digital music recording, and the exemption of computers generally [**17] from the Act's ambit, "would effectively eviscerate the [Act]" because "any recording device could evade [] regulation simply by passing the music through a computer and ensuring that the MP3 file resided momentarily on the hard drive." *RIAA I*, 29 F. Supp. 2d at 630. While this may be true, the Act seems to have been expressly designed to create this loophole.

a

Under the plain meaning of the Act's definition of digital audio recording devices, computers (and their hard drives) are not digital audio recording devices because their "primary purpose" is not to make digital audio copied recordings. *See 17 U.S.C. § 1001(3)*. Unlike digital audio tape machines, for example, whose primary purpose is to make digital audio copied recordings, the primary purpose of a computer is to run various programs and to record the data necessary to run those programs and perform various tasks. The legislative history is consistent with this interpretation of the Act's provisions, stating that "the typical personal computer would not fall within the definition of 'digital audio recording device,'" S. Rep. 102-294, at *122, because a personal computer's "recording function is designed [**18] and marketed primarily for the recording of data and computer programs," *id.* at *121. Another portion of the Senate Report states that "if the 'primary purpose' of the recording function is to make objects other than digital audio copied recordings, then the machine or device is not a 'digital audio recording device,' *even if the machine or device is technically capable of making such recordings.*" *Id.* (emphasis added). The legislative history thus expressly

recognizes that computers (and other devices) have recording functions capable of recording digital musical recordings, and thus implicate the home taping and piracy concerns to which the Act is responsive. Nonetheless, the legislative history is consistent with the Act's plain language - computers are *not* digital audio recording devices. n6

- - - - - Footnotes- - - - -

n6 Indeed, Diamond asserted at oral argument (and supports the assertion with the affidavit of a direct participant in the negotiations and compromises that resulted in the final language of the Act) that the exclusion of computers from the Act's scope was part of a carefully negotiated compromise between the various industries with interests at stake, and without which, the computer industry would have vigorously opposed passage of the Act.

- - - - - End Footnotes- - - - - [**19]

b

In turn, because computers are not digital audio recording devices, they are not required to comply with the SCMS requirement and thus need not send, receive, or act upon information regarding copyright and generation status. *See 17 U.S.C. § 1002(a)(2)*. And, as the district court found, MP3 files generally do not even carry the codes providing information regarding [*1079] copyright and generation status. *See RIAA I*, 29 F. Supp. 2d at 632. Thus, the Act seems designed to allow files to be "laundered" by passage through a computer, because even a device with SCMS would be able to download MP3 files lacking SCMS codes from a computer hard drive, for the simple reason that there would be no codes to prevent the copying. Again, the legislative history is consistent with the Act's plain meaning. As the Technical Reference Document that describes the SCMS system explains, "digital audio signals . . . that have no information concerning copyright and/or generation status *shall be recorded* by the [digital audio recording] device so that the digital copy is copyright asserted and original generation status." *Technical Reference Document for the Audio Home Recording Act*

of [**20] 1992, II-A, Par. 10, *reprinted in* H.R. Rep. 102-780(I), 32, 43 (1992) (emphasis added). Thus, the incorporation of SCMS into the Rio would allow the Rio to copy MP3 files lacking SCMS codes so long as it marked the copied files as "original generation status." And such a marking would allow another SCMS device to make unlimited further copies of such "original generation status" files, *see, e.g.*, H.R. Rep. 102-873(I), at *47 ("Under SCMS . . . consumers will be able to make an unlimited number of copies from a digital musical recording."), despite the fact that the Rio does not permit such further copies to be made because it simply cannot download or transmit the files that it stores to any other device. Thus, the Rio without SCMS inherently allows *less* copying than SCMS permits.

c

In fact, the Rio's operation is entirely consistent with the Act's main purpose - the facilitation of personal use. As the Senate Report explains, "the purpose of [the Act] is to ensure the right of consumers to make analog or digital audio recordings of copyrighted music for their *private, noncommercial use*." S. Rep. 102-294, at *86 (emphasis added). The Act does so through [**21] its home taping exemption, *see* 17 U.S.C. § 1008, which "protects all noncommercial copying by consumers of digital and analog musical recordings," H.R. Rep. 102-873(I), at *59. The Rio merely makes copies in order to render portable, or "space-shift," those files that already reside on a user's hard drive. *Cf. Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 455, 78 L. Ed. 2d 574, 104 S. Ct. 774 (1984) (holding that "time-shifting" of copyrighted television shows with VCR's constitutes fair use under the Copyright Act, and thus is not an infringement). Such copying is paradigmatic noncommercial personal use entirely consistent with the purposes of the Act.

IV

Even though it cannot directly reproduce a digital music recording, the Rio would nevertheless be a digital audio recording device if it could

reproduce a digital music recording "from a transmission." 17 U.S.C. § 1001(1).

A

The term "transmission" is not defined in Act, although the use of the term in the Act implies that a transmission is a communication to the public. *See id.* § 1002(e) (placing restrictions upon "any person who transmits or *otherwise communicates to the public* any sound [**22] recording in digital format") (emphasis added). In the context of copyright law (from which the term appears to have been taken), "to 'transmit' a performance or display is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent." 17 U.S.C. § 101. The legislative history confirms that the copyright definition of "transmission" is sufficient for our purposes here. The Act originally (and circularly) provided that "[a] 'transmission' is any audio or audiovisual transmission, now known or later developed, whether by a broadcast station, cable system, multipoint distribution service, subscription service, [*1080] direct broadcast satellite, or other form of analog or digital communication." S. Rep. 102-294, at *10. The Senate Report provides a radio broadcast as an example of a transmission. *See id.*, at *119 (referring to "a transmission (e.g., a radio broadcast of a commercially released audio cassette)"). The parties do not really dispute the definition of transmission, but rather, whether *indirect* reproduction of a transmission of a digital music recording is covered by the Act.

B

RIAA asserts that indirect reproduction [**23] of a transmission is sufficient for the Rio to fall within the Act's ambit as a digital audio recording device. *See* 17 U.S.C. § 1001(1) (digital audio recording devices are those devices that are capable of making "a reproduction in a digital recording format of a digital musical recording, whether that reproduction is made directly from another digital musical recording or *indirectly* from a transmission") (emphasis added). Diamond asserts that the adverb "indirectly" modifies the

recording of the underlying "digital music recording," rather than the recording "from the transmission." Diamond effectively asserts that the statute should be read as covering devices that are capable of making a reproduction of a digital musical recording, "whether that reproduction is made directly[,] from another digital musical recording[,] or indirectly[,] from a transmission."

While the Rio can only directly reproduce files from a computer hard drive via a cable linking the two devices (which is obviously not a transmission), the Rio can indirectly reproduce a transmission. For example, if a radio broadcast of a digital audio recording were recorded on a digital audio tape machine [*24] or compact disc recorder and then uploaded to a computer hard drive, the Rio could indirectly reproduce the transmission by downloading a copy from the hard drive. Thus, if indirect reproduction of a transmission falls within the statutory definition, the Rio would be a digital audio recording device.

1

RIAA's interpretation of the statutory language initially seems plausible, but closer analysis reveals that it is contrary to the statutory language and common sense. The focus of the statutory language seems to be on the two means of reproducing the underlying digital music recording - either directly from that recording, or indirectly, by reproducing the recording from a transmission. RIAA's interpretation of the Act's language (in which "indirectly" modifies copying "from a transmission," rather than the copying of the underlying digital music recording) would only cover the indirect recording of transmissions, and would omit restrictions on the direct recording of transmissions (e.g., recording songs from the radio) from the Act's ambit. This interpretation would significantly reduce the protection afforded by the Act to transmissions, and neither the statutory language nor [*25] structure provides any reason that the Act's protections should be so limited. Moreover, it makes little sense for the Act to restrict the

indirect recording of transmissions, but to allow unrestricted direct recording of transmissions (e.g., to regulate second-hand recording of songs from the radio, but to allow unlimited direct recording of songs from the radio). Thus, the most logical reading of the Act extends protection to direct copying of digital music recordings, and to indirect copying of digital music recordings from transmissions of those recordings.

2

Because of the arguable ambiguity of this passage of the statute, recourse to the legislative history is necessary on this point. *Cf. Moyle v. Director, Office of Workers' Compensation Programs*, 147 F.3d 1116, 1120 (9th Cir. 1998) ("If the statute is ambiguous, [this court] consults the legislative history, to the extent that it is of value, to aid in [its] interpretation."), *cert. denied*, 143 L. Ed. 2d 541, 119 S. Ct. 1454 (1999). The Senate Report states that "a digital audio recording [*1081] made from a commercially released compact disc or audio cassette, or from a radio broadcast of a commercially released [*26] compact disc or audio cassette, would be a 'digital audio copied recording.'" S. Rep. 102-294, at *119 (emphasis added). This statement indicates that the recording of a transmission need not be indirect to fall within the scope of the Act's restrictions, and thus refutes RIAA's proposed interpretation of the relevant language. Moreover, the statement tracks the statutory definition by providing an example of direct copying of a digital music recording from that recording, and an example of indirect copying of a digital music recording from a transmission of that recording. Thus the legislative history confirms the most logical reading of the statute, which we adopt: "indirectly" modifies the verb "is made" - in other words, modifies the making of the reproduction of the underlying digital music recording. Thus, a device falls within the Act's provisions if it can indirectly copy a digital music recording by making a copy from a transmission of that recording. Because the Rio cannot make copies from transmissions, but instead, can only make

copies from a computer hard drive, it is not a digital audio recording device. n7

-----Footnotes-----

n7 We further note that any transmission reproduced indirectly must pass through a computer, as an MP3 file, to reach the Rio. As we explained in part III.B.2, *supra*, computers are exempted from the requirement of reading and transmitting SCMS codes, and MP3 files do not incorporate such codes. Thus, requiring the Rio to implement SCMS because it can indirectly reproduce a transmission of a digital music recording would be, as the district court concluded, "an exercise in futility." *RIAA I*, 29 *F. Supp. 2d* at 632. SCMS would not alter the Rio's ability to reproduce such transmissions, just as it would not alter the Rio's ability to reproduce digital music recordings uploaded to a computer hard drive.

----- End Footnotes----- [**27]

V

For the foregoing reasons, the Rio is not a digital audio recording device subject to the restrictions of the Audio Home Recording Act of 1992. The district court properly denied the motion for a preliminary injunction against the Rio's manufacture and distribution. Having so determined, we need not consider whether the balance of hardships or the possibility of irreparable harm supports injunctive relief. AFFIRMED.

UMG Recordings, Inc., et. al., v. MP3.com, Inc., 92 F.Supp.2d 349 (2000).

Owners of copyrights in musical recordings sued Internet company, which made MP3 files of recordings available to its subscribers, for infringement. On plaintiffs' motion for partial summary judgment, the District Court, Rakoff, J., held that defendant's conduct was not fair use.

Motion granted.

OPINION

RAKOFF, District Judge.

The complex marvels of cyberspatial communication may create difficult legal issues; but not in this case. Defendant's infringement of plaintiffs' copyrights is clear. Accordingly, on April

28, 2000, the Court granted defendant's [sic] motion for partial summary judgment holding defendant liable for copyright infringement. This opinion will state the reasons why.

The pertinent facts, either undisputed or, where disputed, taken most favorably to defendant, are as follows:

The technology known as "MP3" permits rapid and efficient conversion of compact disc recordings ("CDs") to computer files easily accessed over the Internet. See generally *Recording Industry Ass'n of America v. Diamond Multimedia Systems Inc.*, 180 F.3d 1072, 1073-74 (9th Cir.1999). Utilizing this technology, defendant MP3.com, on or around January 12, 2000, launched its "My.MP3.com" service, which is advertised as permitting subscribers to store, customize and listen to the recordings contained on their CDs from any place where they have an Internet connection. To make good on this offer, defendant purchased tens of thousands of popular CDs in which plaintiffs held the copyrights, and, without authorization, copied their recordings onto its computer servers so as to be able to replay the recordings for its subscribers.

Specifically, in order to first access such a recording, a subscriber to MP3.com must either "prove" that he already owns the CD version of the recording by inserting his copy of the commercial CD into his computer CD-Rom drive for a few seconds (the "Beam-it Service") or must purchase the CD from one of defendant's cooperating online retailers (the "instant Listening Service"). Thereafter, however, the subscriber can access via the Internet from a computer anywhere in the world the copy of plaintiffs' recording made by defendant. Thus, although defendant seeks to portray its service as the "functional equivalent" of storing its subscribers' CDs, in actuality defendant is re-playing for the subscribers converted versions of the recordings it copied, without authorization, from plaintiffs' copyrighted CDs. On its face, this makes out a presumptive case of infringement under the Copyright Act of 1976 ("Copyright Act"), 17 U.S.C. § 101 et seq. See, e.g., *Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc.*, 150 F.3d 132, 137 (2d Cir.1998); *Hasbro Bradley, Inc. v. Sparkle Toys, Inc.*, 780 F.2d 189, 192 (2d Cir.1985). [FN1]

FN1. Defendant's only challenge to plaintiffs' prima facie case of infringement is the suggestion, buried in a footnote in its opposition papers, that its music computer files are not in fact "reproductions" of plaintiffs' copyrighted works within the meaning of the Copyright Act. See, e.g., 17 U.S.C. § 114(b). Specifically, defendant claims that the simulated sounds on MP3-based music files are not physically identical to the sounds on the original CD recordings. See Def.'s Consolidated Opp. to Pls.' Motions for Partial Summ.J. at 13-14 n. 9. Defendant concedes, however, that the human ear cannot detect a difference between the two. *Id.* Moreover, defendant admits that a goal of its copying is to create a music file that is sonically as identical to the original CD as possible. See Goodman Reply Aff., Robertson Dep., Ex. A,

at 85. In such circumstances, some slight, humanly undetectable difference between the original and the copy does not qualify for exclusion from the coverage of the Act.

[1] Defendant argues, however, that such copying is protected by the affirmative defense of "fair use." See 17 U.S.C. § 107. In analyzing such a defense, the Copyright Act specifies four factors that must be considered: "(1) the purpose and *351 character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work." *Id.* Other relevant factors may also be considered, since fair use is an "equitable rule of reason" to be applied in light of the overall purposes of the Copyright Act. *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 417, 448, 454, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984); see *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 549, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985).

[2] Regarding the first factor--"the purpose and character of the use"--defendant does not dispute that its purpose is commercial, for while subscribers to My.MP3.com are not currently charged a fee, defendant seeks to attract a sufficiently large subscription base to draw advertising and otherwise make a profit. Consideration of the first factor, however, also involves inquiring into whether the new use essentially repeats the old or whether, instead, it "transforms" it by infusing it with new meaning, new understandings, or the like. See, e.g., *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994); *Castle Rock*, 150 F.3d at 142; See also Pierre N. Leval, "Toward a Fair Use Standard," 103 Harv.L.Rev. 1105, 111 (1990). Here, although defendant recites that My.MP3.com provides a transformative "space shift" by which subscribers can enjoy the sound recordings contained on their CDs without lugging around the physical discs themselves, this is simply another way of saying that the unauthorized copies are being retransmitted in another medium--an insufficient basis for any legitimate claim of transformation. See, e.g., *Infinity Broadcast Corp. v. Kirkwood*, 150 F.3d 104, 108 (2d Cir.1998) (rejecting the fair use defense by operator of a service that retransmitted copyrighted radio broadcasts over telephone lines); *Los Angeles News Serv. v. Reuters Television Int'l Ltd.*, 149 F.3d 987 (9th Cir.1998) (rejecting the fair use defense where television news agencies copied copyrighted news footage and retransmitted it to news organizations), cert. denied, 525 U.S. 1141, 119 S.Ct. 1032, 143 L.Ed.2d 41 (1999); see also *American Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 923 (2d Cir.), cert. dismissed, 516 U.S. 1005, 116 S.Ct. 592, 133 L.Ed.2d 486 (1995); *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F.Supp. 1522, 1530-31 (S.D.N.Y.1991); see generally Leval, *supra*, at 1111 (repetition of copyrighted material that "merely repackages or republishes the original" is unlikely to be deemed a fair use).

Here, defendant adds no new "new aesthetics, new insights and understandings" to the original music recordings it copies, see *Castle Rock*, 150 F.3d at 142 (internal quotation marks omitted), but simply repackages those recordings to facilitate their transmission through another medium. While such services may be innovative, they are not transformative. [FN2]

FN2. Defendant's reliance on the Ninth Circuit's "reverse engineering" cases, see *Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F.3d 596 (9th Cir.2000); *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1527 (9th Cir.1992), is misplaced, because, among other relevant distinctions, those cases involved the copying of software in order to develop a new product, see *Sony Computer Entertainment*, 203 F.3d at 606; *Sega Enterprises*, 977 F.2d at 1522, whereas here defendant copied CDs onto its servers not to create any new form of expression but rather to retransmit the same expression in a different medium.

Regarding the second factor--"the nature of the copyrighted work"--the creative recordings here being copied are "close[] to the core of intended copyright protection," *Campbell*, 510 U.S. at 586, 114 S.Ct. 1164, and, conversely, far removed from the more factual or descriptive work more amenable to "fair use," see *Nihon Keizai Shimbun, Inc. v. Comline Business Data, Inc.*, 166 F.3d 65, 72-73 (2d Cir.1999); see also *Castle Rock*, 150 F.3d at 143-44.

Regarding the third factor--"the amount and substantiality of the portion [of the copyrighted work] used [by the copier] in relation to the copyrighted work as a whole"--it is undisputed that defendant copies, and replays, the entirety of the copyrighted works here in issue, thus again negating any claim of fair use. See *Infinity Broadcast*, 150 F.3d at 109 ("[T]he more of a copyrighted work that is taken, the less likely the use is to be fair"); see generally *Leval*, *supra*, at 1122 ("[T]he larger the volume ... of what is taken, the greater the affront to the interests of the copyright owner, and the less likely that a taking will qualify as a fair use").

Regarding the fourth factor--"the effect of the use upon the potential market for or value of the copyrighted work"--defendant's activities on their face invade plaintiffs' statutory right to license their copyrighted sound recordings to others for reproduction. See 17 U.S.C. § 106. Defendant, however, argues that, so far as the derivative market here involves is concerned, plaintiffs have not shown that such licensing is "traditional, reasonable, or likely to be developed." *American Geophysical*, 60 F.3d at 930 & n. 17. Moreover, defendant argues, its activities can only enhance plaintiffs' sales, since subscribers cannot gain access to particular recordings made available by MP3.com unless they have already "purchased" (actually or purportedly), or agreed to purchase, their own CD copies of those recordings.

Such arguments--though dressed in the garb of an expert's "opinion" (that, on inspection, consists almost entirely of speculative and conclusory statements)--are unpersuasive. Any allegedly positive impact of defendant's activities on plaintiffs' prior market in no way frees defendant to usurp a further market that directly derives from reproduction of the plaintiffs' copyrighted works. See *Infinity Broadcast*, 150 F.3d at 111. This would be so even if the copyright holder had not yet entered the new market in issue, for a copyright holder's "exclusive" rights, derived from the Constitution and the Copyright Act, include the right, within broad limits, to curb the development of such a derivative market by refusing to license a copyrighted work or by doing so only on terms the copyright owner finds acceptable. See *Castle Rock*, 150 F.3d at 145-46; *Salinger v. Random House, Inc.*, 811 F.2d 90, 99 (2d Cir.), cert. denied, 484 U.S. 890, 108 S.Ct. 213, 98 L.Ed.2d 177 (1987). Here, moreover, plaintiffs have adduced substantial evidence that they have in fact taken steps to enter that market by entering into various licensing agreements. See, e.g., *Forrest R. Aff.*, Ex. F., *Vidich Dep.* at 61- 63; *id.*, Ex. N; *Goodman R. Aff.*, Ex. B., *Silver Dep.* at 64-65; *id.*, Ex. D, *Eisenberg Dep.* at 130-32; *id.*, Ex. E., *Evans Dep.* 145-48.

Finally, regarding defendant's purported reliance on other factors, see *Campbell*, 510 U.S. at 577, 114 S.Ct. 1164, this essentially reduces to the claim that My.MP3.com provides a useful service to consumers that, in its absence, will be served by "pirates." Copyright, however, is not designed to afford consumer protection or convenience but, rather, to protect the copyright holders' property interests. Moreover, as a practical matter, plaintiffs have indicated no objection in principle to licensing their recordings to companies like MP3.com; they simply want to make sure they get the remuneration the law reserves for them as holders of copyrights on creative works. Stripped to its essence, defendant's "consumer protection" argument amounts to nothing more than a bald claim that defendant should be able to misappropriate plaintiffs' property simply because there is a consumer demand for it. This hardly appeals to the conscience of equity.

[3] In sum, on any view, defendant's "fair use" defense is indefensible and must be denied as a matter of law. Defendant's *353 other affirmative defenses, such as copyright misuse, abandonment, unclean hands, and estoppel, are essentially frivolous and may be disposed of briefly. While defendant contends, under the rubric of copyright misuse, that plaintiffs are misusing their "dominant market position to selectively prosecute only certain online music technology companies," *Def.'s Consolidated Opp. to Pls.' Motions for Summ.J.* at 21, the admissible evidence of records shows only that plaintiffs have reasonably exercised their right to determine which infringers to pursue, and in which order to pursue them, cf. *Broadcast Music, Inc. v. Peppermint Club, Inc.*, 1985 WL 6141, at *4 (N.D.Ohio Dec.16, 1985). The abandonment defense must also fall since defendant has failed to adduce any competent evidence of an overt act indicating that plaintiffs, who filed suit against MP3.com shortly after MP3.com launched its infringing My.MP3.com service, intentionally abandoned their

copyrights. See *Richard Feiner & Co., Inc. v. H.R. Indus., Inc.*, 10 F.Supp.2d 310, 313 (S.D.N.Y.1998). Similarly, defendant's estoppel defense must be rejected because defendant has failed to provide any competent evidence that it relied on any action by plaintiffs with respect to defendant's My.MP3.com service. Finally, the Court must reject defendant's unclean hands defense given defendant's failure to come forth with any admissible evidence showing bad faith or misconduct on the part of plaintiffs. See generally *Dunlop-McCullen v. Local 1-S, AFL-CIO-CLC*, 149 F.3d 85, 90 (2d Cir.1998); *A.H. Emery Co. v. Marcan Prods. Corp.*, 389 F.2d 11, 18 n. 4 (2d Cir.), cert. denied, 393 U.S. 835, 89 S.Ct. 109, 21 L.Ed.2d 106 (1968). [FN3]

FN3. The Court also finds no reason to alter or postpone its determination simply because of the recent filing of the complaint in *Lester Chambers et al. v. Time Warner, Inc., et al.*, 00 Civ. 2839 (S.D.N.Y. filed Apr. 12, 2000) (JSR), the allegations of which, according to the defendant here, call into question the exclusivity of plaintiffs' copyrights. The allegations of a complaint, having no evidentiary value, cannot defeat a motion for summary judgment.

The Court has also considered defendant's other points and arguments and finds them sufficiently without merit as not to warrant any further comment.

Accordingly, the Court, for the foregoing reasons, has determined that plaintiffs are entitled to partial summary judgment holding defendant to have infringed plaintiffs' copyrights.

Compulsory Licensing

Glen Otis Brown, *Copyright goes old-school. Running for Cover* (last modified July 27, 2000) <http://www.tnr.com/online/brown072700.html>. [Edited excerpt.]

The year is 1909, not 2000, and the company is named **Aeolian**, not Napster. Aeolian, which manufactures rolls for a newfangled invention called the player piano, is roiling the music business. Composers consider its technology a threat to their vitality, and as various interests jockey to control the distribution and sale of music, Congress is called upon to bail the industry out.

As early as 1870, American copyright laws gave control of a piece of music to the person who composed it. They were silent, however, on who controlled a *recording* of it. As the production of phonorecords and piano rolls began to grow, courts had to confront the question of whether recording songs on such devices violated composers' rights. In 1908, the question reached the Supreme Court, which ruled that manufacturing piano rolls did not infringe on a composition's copyright. For copyright owners, the consequences could have been disastrous. So they lobbied Congress to extend their rights to recordings as well as the music itself, and succeeded. The 1909 Copyright Act granted composers exclusive control of "parts of instruments serving to reproduce mechanically the musical work"—meaning records and piano rolls.

But while the 1909 act was still being drafted, the Aeolian company began hoarding the copyrights to popular compositions: with exclusive rights to the biggest-selling compositions, Aeolian could boost the sales of its piano rolls. Of course, the plan was also unfair: Aeolian's competitors saw that the company would attempt to use the 1909 law to control the music and the medium used to distribute it.

In response to fears over Aeolian's attempt to "establish a great music monopoly," Congress limited an owner's copyright in the 1909 law. The compulsory "cover" license section of the law forced the owner of a copyrighted composition to let any musician record a version of it in exchange for a pre-arranged royalty payment. For example, a jazz musician could take a popular song and make it a signature tune without the copyright owner's explicit permission, provided the correct royalty procedure was followed.

The player piano is no longer with us, but the compulsory license exception is. This is due, at least in part, to the music industry's determination to prevent another Aeolian from stockpiling copyrighted songs and cornering the market on recordings. When the Copyright Act was overhauled in 1967 and again in 1976, the industry urged Congress to keep the compulsory license provision. For half a century, they argued, it had produced "an outpouring of recorded music, with the public being given lower prices, improved quality, and a greater choice."

A century ago, Congress adopted compulsory licensing when a copyright owner (Aeolian) seemed to be gaining too much control over songs and recordings. When compulsory licensing resurfaced last week, however, it did so in Senate Judiciary Committee hearings premised on the idea that the whole music industry has *too little* control over copyrighted songs and recordings: Napster and others have headbangers and record labels alike crying foul. So, one might ask, why was an exception to copyright law relevant to a hearing about piracy's undermining of copyright protections? The answer lies in a bit of foresight on the part of Senators Orrin Hatch and Patrick Leahy.

To judge from the press coverage of the hearings, you'd think that Hatch, the committee chairman and an amateur musician himself, had joined forces with Metallica's Lars Ulrich and the record labels in denouncing Napster's purportedly piratical ways. (A common headline: "Hard Rocker Finds Senate Ally in Protest Against Downloads," from the July 12 *Cleveland Plain Dealer*.) Hatch indeed showed sympathy for artists and the old-media camp, but he also indicated that piracy wasn't his only concern. "While I do not think that copyright owners have any general duty to license their products to others," he said, "a complete lack of licensing puts in question the labels' professed desire to be ubiquitous." Hatch said that if record producers reacted to Napster by dealing only with websites affiliated with their companies, it "might raise some competition concerns that this committee would have a duty to consider."

In other words, while Hatch was partly concerned with the specter of piracy, he was equally concerned about the possibility that the labels might overreact and clamp down on the online use of their copyrighted songs and recordings. If the major labels only associate with a small circle of approved online vendors, they could enjoy an Aeolianesque degree of control over the online uses of their music. The larger concern isn't that the labels might lack control. It's that they might have too much of it.

And that's where the compulsory license exception might come in. "If the parties don't come to some voluntary agreement," Leahy said at the end of the hearing, "I suspect there will be pressure on Congress to create compulsory, statutory licensing." How this scheme would operate, exactly, is unclear. Napster might pay an annual fee for unlimited rights to help its users trade major-label music—which is pretty much how the old jukebox industry used to work, and is similar to a voluntary arrangement MP3.com inked with Warner Music and BMG last month. But chances are such a plan would be complex and difficult to enforce—not least because of the rise of decentralized, "peer-to-peer" applications like Gnutella. To be sure, technical difficulties aren't all that's stopping Hatch and Leahy from acting on their threats. When pressed, Senate Judiciary staffers concede that it would be "premature" to begin building a compulsory licensing scheme. This isn't altogether surprising: The courts haven't weighed in, and the parties have yet to exhaust their settlement options.

Whatever the outcome, Hatch and Leahy are on the right track. To their credit, they seem to realize that there's something more dangerous than a regime that lets pirates get away with abusing copyright holders' rights, and that's a regime that gives copyright holders too-perfect control over their works. (Incidentally, this argument was floated by Napster in its case against

the Recording Industry Association of America. Napster argues that the RIAA isn't really interested in enforcing intellectual property rights. Instead, Napster says, RIAA is trying to gain control of "the means of and business model for distributing music over the Internet.")

It may be that old-school compulsory licensing isn't the best remedy for the digital music problem. But the principle underlying that policy—that an overzealous copyright policy is no better than an underenforced one—is sound whatever the state of technology. One way or another, policymakers and judges ought to translate that principle to fit the times.

Financial Times

Britney Spears and online music fears

James Boyle argues that digital piracy over the internet is less of a worry than record industry efforts to stamp it out

Published: May 23 2000 19:11GMT | Last Updated: May 23 2000 19:19GMT

I am sitting at my computer in Washington DC, watching a list of search terms scroll down the screen. I am using a free software program called Gnutella which allows any user connected to the internet to exchange music files, pictures, videos - anything that can be captured in digital format.

Internet romanticists portray systems such as Gnutella and Napster (a more centralised system) as the foundation for an artistic utopia, a method of distribution that will free musicians from the dead hand of the music industry, allowing thousands of new artists to offer their works directly to the public.

The music industry is, understandably, less sanguine. It sees little sign of the development of an alternative music culture, only of a system built around the piracy of existing copyrighted music. Industry lawyers tell apocalyptic stories about the devastating effects that digital piracy will have on musicians. Who is right, the romanticists or the industry lawyers?

From the evidence of Gnutella, which helpfully gives me a live transcript of the searches flooding the system, we might give the first round to the lawyers. Although Gnutella is indeed a radical technology, its users show a distinctly mundane taste for smutty pictures and well-known music. Films of Britney Spears' breasts seem to be particularly popular, presumably because they combine both preferences, but rock from the 1980s and 1990s is in second place, with the occasional request for Mozart or Miles Davis.

Sympathy for the recording industry may not come easily. But let us be clear. Most of what is going on over Gnutella, Napster and the rest is the illicit copying of copyrighted music. The music industry in the US has even argued in court, with some initial success, that services such as Napster should be responsible when their users violate copyright. The industry has also persuaded a large number of universities, the most common source of the high-speed connections needed, to shut off internet access to sites such as Napster.com. Gnutella is harder to shut down because it is distributed; there is no central node to attack.

Is the music industry also correct that these systems present a dire threat to musicians livelihoods? Here the evidence is more doubtful. In fact, last year industry profits increased, leading some to argue that the internet was actually increasing demand for music, in the same way that a pirate radio station might, even though it failed to license the songs it broadcast. Why would anyone buy the compact disc when they could download songs for free? Because the music is still hard to find and a pain to download. Because MP3 music lacks the sound quality of CDs. Because CDs do not have viruses. Because users dislike breaking the law.

In the end, with programs such as Gnutella around, record companies will probably lose some money from illegal copying. My guess is that they will gain back even more money when the person who has illicitly copied the single wants the CD to play in the car.

This does not mean that the initial copying was lawful, but it should lead us to be sceptical when the music industry spins its story of imminent collapse. The same story was told when cassette tape recorders appeared.

But if Napster and Gnutella work poorly as actual threats to the business of the music industry, they have considerable promise as scary stories to tell legislators, particularly if one were lobbying for government assistance in preserving the current shape of the market. And that will be the music industry's next move.

The real question, then, is not whether most of the copying on Napster or Gnutella is legal. (It is not). Nor is it whether the users of Napster or Gnutella can cast themselves as the heroes of new musical and artistic utopia. (First, they will have to stop ogling Ms Spears). The question is what all this means for the future of the music industry.

Right now, the costs of music are in promotion, production and distribution. Distribution on the Net will be in effect free, production costs are falling precipitously and we do not know whether promotion costs will change online or not. It might be that the net will usher in a world of greater musical variety and experimentation, fewer superstars and more niche markets. Nobody knows.

In fact, the biggest threat to the cultural potential of the internet is not digital piracy but the continuing attempt by the music industry to change technical standards and legal rules so as to build its current business plan into the law and the technology of the medium itself.

From the record industry's point of view, it would be wonderful if the law could be used to require an expensive new format for recording, to prohibit innocent technologies as well as ones clearly designed for piracy, thus raising the barriers to entry into music distribution and restricting the fair-use rights of the public.

In the US, the first step in this project was the grandiosely titled Digital Millennium Copyright Act, or DMCA, an extraordinarily complicated statute that would more accurately be described as the Copyright Lawyers Guaranteed Employment Act. Focusing only on the threats posed by the internet, the backers of the DMCA successfully argued for intellectual property expansions that cut back on consumers' rights and made it harder for upstarts to compete with existing businesses. But the DMCA was only the first step. When the content industries try again, search lists from Gnutella and directories from Napster will be their first piece of evidence. The call will go out for universal identifiers that make net-users less anonymous, for legally protected encoding schemes that tie digital objects to particular people; so that I can't lend you my e-book.

Far from transforming the world of music, Gnutella may end up being used to guarantee that the music business stays in its current shape, while the internet is tamed to make it safe for commerce. Talk about unintended consequences.

The writer is professor of law at Duke Law School

P.J. Huffstutter, *Is a Stitch Online a Crime?*, L.A. Times, August 1, 2000, at A1. [Edited excerpt.]

Pattern publishers say many needlepoint fans, napster-like, are cheating them by swapping designs on the internet for free. But members of the sewing set say it's just friendly sharing.

If the \$40-billion global music business thought it had problems with the emergence of a revolutionary Internet tool called Napster, consider the now-terrified needlepoint industry. For years, grandmotherly hobbyists, hungry for doily-and-swan patterns, have forked over \$6 and \$7 for them. In a good year, Pegasus, a pattern provider, can pull in about \$500,000 from selling the copyrighted patterns to its aging customers. No more. Taking a cue from music-bootlegging teenagers, sewing enthusiasts have discovered that they too can steal copyrighted material over the Internet, thanks to anonymous file-sharing techniques.

"I'm only sharing the patterns with my friends, and their friends," said Carla Conry, a mother of six who runs PatternPiggiesUnite!, a 350-person underground Net community of stitchers who swap the patterns. "Why shouldn't friends help each other out and save a little bit of money?"

What is neighborly fun for Conry is outright theft to needlepoint companies and the artists who create the patterns. Sales at the South Carolina design shop Pegasus have dropped as much as \$200,000 a year—or 40%—since 1997, in part because of such swapping, said founder Jim Hedgepath. He and a handful of companies and pattern designers are gathering evidence to wage a legal battle against the homemakers. "They're housewives and they're hackers," Hedgepath said. "I don't care if they have kids. I don't care that they are grandmothers. They're bootlegging us out of business."

"Where will it end?" wailed Marilyn Leavitt-Imblum, 54, who designs needlepoint patterns. "I just don't understand how these people can stitch a stolen angel and still live with themselves."

Easy to Use, Easy to Copy

It all started about a year ago, when a group of ladies—who also happened to have PCs and digital scanners—decided to exchange needlepoint designs. Easy to use, the designs also are simple to copy. For years, fans photocopied the patterns and sent them to each other. Not by the dozens, mind you. Just one or two, tucked inside "with a recipe and a note," said Carlene Davis, a 52-year-old grandmother who lives in southwest Idaho. "Just being neighborly."

Now there are scores of easy-to-find pattern treasure troves, thanks to pointers from the Internet message board. Many posts list links to Web sites that hobbyists have built using free homepage services like Xoom Inc. On one Xoom page, several dozen patterns featuring Disney characters can be had for a very low price. "Each time you want to download a pattern, please click the banner once!" the poster wrote. "I am sorry having to force you to click it, but it seems that a lot of people just get the patterns, not thinking about the running costs of this site." But after clicking on the ads, the site failed to produce the promised patterns. Angry octogenarians railed against the site's owner in rec.crafts.textiles.needlework, clucking over the deception. The nerve of that stitcher!

“This is exactly the reason why I started PatternPiggies,” Conry said. “You don’t know who you can trust.”

PatternPiggies is a digital clubhouse on eGroups, a free Web-based service that lets people create e-mail groups and electronic bulletin boards for sharing digital files. Conry launched the group late last year, and quickly attracted hundreds of women who jumped at the chance to download dozens of bootlegged patterns for free.

Interestingly, hobbyists who swap patterns take the same ethical stance as music-loving teenagers who have used programs like Napster to exchange copyrighted tunes. “I’m promoting the designers,” said Shawna Dooley, a 25-year-old housewife from Alberta, Canada. “We’re just sampling the patterns. If you like one pattern, you’re going to be more likely to go out and buy a pattern by that artist next time”

Besides, paying \$6 for an entire pattern book is outrageous, said Carole Nutter, particularly if a person wants just one or two of the dozen designs listed. “It’s like the CD. There’s one song you want, but you still have to buy the whole thing,” said Nutter, 54, who lives in Bellgrave, Mont., a town of 3,000. “Why can’t the industry let us pay for what we want, not what they want to sell us?”

Some publishers and artists are gathering evidence to fire back with legal action. Attorneys at Time Warner’s Southern Progress Corp., the parent company of Leisure Arts, have sent cease-and-desist letters to Internet service providers that host Web sites laden with pirated designs.

Hedgepath, of Pegasus Originals, is organizing artists and pushing them to build a legal fund to go after the pattern-swappers. And designer Leavitt-Imblum has ordered her attorney to start collecting evidence so she can sue those who exchange copies of her patterns. While her attorney acknowledges that his client’s rights are being violated, he has tried to cool her enthusiasm for taking the pattern-swappers to court.

Suing Grandmothers Just Isn’t Practical

Indeed, outside this cottage business, the public outcry over bootlegging Leavitt-Imblum’s World Peace Angel has been nonexistent. After all, suing a needle-happy homemaker makes even less sense than filing a lawsuit against a teenager exchanging copies of the latest Metallica record with millions of Internet users, lawyers say. “This is a homey industry,” said Sabrina Simon, corporate counsel for Southern Progress Corp. “What kind of damages could we possibly get from a grandmother?”

For now, the cross-stitch war must be waged on the grass-roots level. In hopes of gathering evidence and quashing the problem, publishers and designers say they are mobilizing small groups of spies to infiltrate the pattern-swapping clubs and nail the ringleaders. Designers say they have recruited friends and fans, sometimes offering free patterns in exchange for their snooping. So, how many spies are there? “I can’t tell you,” said Leavitt-Imblum. “Do you know what would happen to these women if I told you their names?”

At worst, these cyberspace Mata Haris are exiled from the cross-stitch underground. That happened on PatternPiggies, which recently renamed the group OinkersDelight and yanked its listing off eGroups’ search engine. To find the club, you have to know someone who knows someone, and can vouch for your worthiness. Getting in now requires a password and a pledge of faith: New subscribers are encouraged to post at least one cross-stitch pattern to the community.

The club has two important rules, according to its home page. First off, have fun. “The second thing is there will be NO TALK OF COPYRIGHT,” according to the posted rules. “We are a share group. We are not selling anything.”

As the clash continues, people on both sides of the pattern debate say they are closely watching the Napster case unfold in San Francisco. Their future, they say, is ultimately tied to the fate of a technology start-up that has wrestled control over distribution from major entertainment conglomerates.