NYSBA

SPRING/SUMMER 2004 | VOLUME 13 | NO. 1

Bright Ideas

A publication of the Intellectual Property Law Section
of the New York State Bar Association

Message from the Chair

This is my parting shot, so to speak, my last "Message" to the Section as its Chair. I must say it has been an honor to work with so many talented and dedicated people on the Executive Committee and at the State Bar, all of whom I can honestly say I have had the greatest pleasure to work with as Chair of the Section.

I looked back at my first Message to the Section, and I am proud to say that the Section really has accomplished its stated goals. Membership remains 2,000-strong and growing. We have updated, and presently are updating, the Web site to make use of the Internet as an educational tool and to better communicate with members. Our programming over the last two years has been exceptional, and we have greatly improved our ties to the judiciary and corporate counsel by having federal court judges and corporate counsel from various technological areas speak to the Section at our numerous meetings throughout the year.

We have also accomplished our goal to go "global." Along with programs that have targeted global intellectual property issues, the Section has created an International Intellectual Property Issues Committee, which has already received a fantastic response. I encourage you to attend the January 2005 Annual Meeting, where the International IP Committee will be staging its first international program.

Other achievements are the creation of an annual calendar so members know when Section events will be held. The Section also initiated its Women in IP series, and, since it was so successful, it has been made an annual event. The Section has met its goal to conduct Roundtable programs for experienced practitioners, and the individual Committees are scheduled to

Inside

meet regularly throughout the year. Anyone who needs CLE credit surely can find it within the Section. And with the Law Student Writing Contest and the *Bright Ideas* newsletter the Section has more than met its stated goal of publishing important information concerning issues and developments in intellectual property for its members.

As of June 1, 2004 our Section Officers and several of our Committee Chairs will change. Below is a list of the new Officers and Committee Chairs:

Section Chair—Richard L. Ravin

Vice Chair—Debra Ivy Resnick

Treasurer—Joyce L. Creidy

Secretary—Paul Fakler

Patent Law Committee—Co-Chairs: Mike Chakansky and Phil Furgang

Trademark Law Committee—Co-Chairs: George McGuire and Jonathan Matkowsky

Copyright Law Committee—Co-Chairs: Jeffrey Cahn and Bob Clarida

Trade Secrets Law Committee—Co-Chairs: Vicki Cundiff and Doug Miro

Technology, Transfer and Licensing Committee—Co-Chairs: Walter Bayer and Neil Baumgarten

Internet Law Committee—Co-Chairs: Rory Radding and Peter Szendro

International Intellectual Property Law Issues Committee—Co-Chairs: Ray Mantle and Sheila Francis

Legislative/Amicus Committee—Co-Chairs: Noel Humphreys and Richard Schurin

Young Lawyers—Chair: Kelly Slavitt

Meetings Committee—Chair: Charles T. J. Weigell

Membership Committee—Chair: Charles T. J. Weigell

New Position—Section Website Liaison: Noel Humphreys

Please note the creation of the new International Intellectual Property Law Issues and the Legislative/Amicus Committees. We invite you to contact the Chairs of these Committees to volunteer and become more involved in the Section.

I thank the Honorary Chairs, the Executive Committee, and the State Bar staff for assisting the Section and I in accomplishing all of the above. I hope you will visit the Section Web site (www.nysba.org/ipl), review the Section 2004 Calendar, attend Section events, and take advantage of all the Section has to offer.

I wish my successor, Rick Ravin, the best of luck in leading the Section to another active and fulfilling term.

Marc A. Lieberstein

Thank You

The Intellectual Property Law Section extends its gratitude to the following for their significant sponsorship over the past year:

- Bond, Schoeneck & King, PLLC
- Cowan, Liebowitz & Latman, P.C.
- Hartman & Craven LLP
- Ostrolenk, Faber, Gerb & Soffen, LLP
- Paul, Hastings, Janofsky & Walker LLP
- Sills Cummis Radin Tischman Epstein & Gross
- Thelen Reid & Priest LLP
- Weil, Gotshal & Manges LLP
- DAVID BERDON & COMPANY, LLP
- CCH CORESEARCH
- MASTER DATA CENTER™
- MICROPATENT®
- NAMEPROTECT INC.
- RWS GROUP
- STANDARD & POOR'S
- THOMSON & THOMSON
- VERISIGN®

The Road to Trade Dress Protection for Product Configuration: Not a Dead End Despite *TrafFix* and the Functionality Roadblocks

By Susan E. Farley and Alana M. Fuierer

I. Introduction

Susan E. Farley

In 2001, the Supreme Court, in *TrafFix Devices, Inc. v. Marketing Displays, Inc.*,[1] addressed the role of trade dress protection for product configuration. At first blush, *TrafFix* appeared to narrow the scope of trade dress protection by broadening the definition of functionality.[2] However, a more comprehensive review of how federal courts, in particular New York district courts, have applied *TrafFix* clearly indicates that the protection afforded to product configuration trade dress has not, in fact, been narrowed across the board and that it remains a viable means of protecting product configuration.

II. The *TrafFix* Decision

In *TrafFix*, the Supreme Court recognized two distinct tests for functionality: one for utilitarian features of a product design and one for aesthetic aspects of a product. When considering utilitarian features of a product design, the Court clarified that the traditional *Inwood*[3] test should be applied to determine if a feature is functional. That is, a product feature is functional "when it is essential to the use or purpose of the article or when it affects the cost or quality of an article."[4] Under this "traditional" test, the focus is on the utility (or usefulness) of a feature rather than on competitive necessity. Moreover, in addressing the effect of an expired utility patent on functionality, the Court indicated that a utility patent is "strong evidence" that the features claimed therein are functional under the *Inwood* test.[5] At least as significantly, however, the Court acknowledged that if a feature is "merely an ornamental, incidental, or arbitrary aspect of the device," it may be nonfunctional, and therefore qualify for trade dress protection, *even if* it is disclosed, or claimed, in a utility patent.[6]

When aesthetic aspects of a product configuration are at issue, the Supreme Court indicated that it is then appropriate to turn to the *Qualitex*[7] "competitive necessity" test to determine functionality.[8] Under this test, a functional feature is one the "exclusive use of [which] would put competitors at 'significant non-reputation-related disadvantage.'"[9]

III. Circuit Split Regarding Relevance of Alternative Designs Under Traditional Test

The Second Circuit has discussed only *in dicta* the functionality doctrine post-*TrafFix*.[10] However, several other circuit courts have addressed the functionality doctrine and, for the most part, have focused a great deal on the relevance of "alternative designs" under the traditional test.[11]

In *TrafFix*, the Supreme Court stated that "[w]here the design is functional under the *Inwood* formulation there is no need to proceed further to consider if there is a competitive necessity for the feature."[12] Interpreting this language narrowly, some courts have held that alternative designs remain relevant as one factor in determining whether a product configuration is functional under the traditional test, despite the Supreme Court's indication that "competitive necessity" is not the focus under the traditional test.[13] For example, in *Valu Engineering, Inc. v. Rexnord Corp.*, the Federal Circuit stated that "[n]othing in *TrafFix* suggests that consideration of alternative designs is not properly part of the overall mix, and we do not read the Court's observations in *TrafFix* as rendering the availability of alternative designs irrelevant."[14]

On the other hand, some courts have interpreted the Supreme Court's directive to preclude consideration of alternative designs under the traditional *Inwood* test.[15] For example, in *Eppendorf-Netheler-Hinz GMBH v. Ritter GMBH*, the Fifth Circuit held that the eight design features of a disposable pipette tip were functional because all eight features were "essential to the operation" of the product.[16] In doing so, the Court made it clear that the existence of alternative designs was *not germane* to the traditional test for functionality, stating that "[u]nder [the] traditional definition, if a product feature is 'the reason the device works,' then the feature is functional. The availability of alternative designs is irrelevant."[17]

Regardless of the circuit split regarding whether alternative designs are relevant under the traditional test, *TrafFix* makes clear that plaintiffs cannot rely on the "competitive necessity" test to establish that utilitarian features are nonfunctional. In other words, the availability of alternative designs can no longer turn a functional, utilitarian feature into a nonfunctional one.[18]

IV. Product Configuration Held Functional

Post-*TrafFix*, the circuit courts have followed the Supreme Court's lead by applying the traditional test for functionality when utilitarian features of a product configuration are at issue and, in the end, have appeared somewhat reticent to extend trade dress protection.[19] For example, the following have been held to be "essential to the use or purpose" of a product or to "affect[] the cost or quality" of a product and, therefore, to be functional and not protectible as trade dress:

- fins, flange, plunger head, plunger, length of tips, sizes of tips, coloring scheme, and angle of tip stumps of a disposable pipette tip[20]
- dual strap-hinge design, spine cover, padded album cover, and reinforced pages of a scrap book album[21]
- round, flat, and tee cross-sectional designs for conveyor guide rails[22]
- shape and color combination for pharmaceutical drug tablet[23]
- grip feature and shape of water bottle[24]

Similarly, lower courts have found the following to be functional under the traditional test and, therefore, not protectible as trade dress:

- S-shape lip of disposable plastic serving tray[25]
- white/green color, fabric, flap, and rear window of golf cart canopy[26]
- color yellow for corrugated plastic tubing[27]
- small round beads and colorful pieces in ice cream[28]
- overall arrangement of five design features for a dental implant (external thread, gray color, curved upper surface, rounded bottom and solid abutment)[29]
- fish shape for gummy candy[30]

In many cases where the court has found functionality under the traditional test, it has expressly pointed out that the plaintiff failed to establish that there was anything "arbitrary" about the individual features, the arrangement of the features, or the overall product configuration.[31]

V. Product Configuration Held Nonfunctional

Despite the Supreme Court's warning against the "misuse or overextension of trade dress"[32] and the implication that the *TrafFix* decision significantly broadened the functionality doctrine, several courts have found product configurations to be nonfunctional in view of *TrafFix*. For example, some post-*TrafFix* decisions have found aspects of a design to be aesthetic and thus nonfunctional.[33] Moreover, even when faced with an existing utility patent, courts have been willing to apply the Supreme Court's "narrow" exception for product features that are "merely an ornamental, incidental or arbitrary aspect of the device."[34] In fact, it can be argued that, by acknowledging that features in a utility patent claim are not necessarily functional, the *TrafFix* decision has somewhat broadened the scope of trade dress protection in some circuits.[35]

The following have been held to be nonfunctional (or at least not *necessarily* functional) under *TrafFix*:

- pool hall trade dress[36]
- arrangement of ornamental features for designer pants[37]
- jewelry design incorporating a cable configuration[38]
- arrangement of features for a handbag[39]
- rabbit's head corkscrew[40]
- overall design of a bow-tying device[41]
- rectangular horizontal grooves on a clothing hanger[42]
- color red for fencing products[43]
- overall trade dress in a Hummer vehicle[44]
- overall trade dress in a cutting tool comprising color scheme and shape, handles, rail guides, and hinges[45]

In many cases, courts have found that a product configuration can be nonfunctional if it involves color[46] or an arbitrary arrangement of product features,[47] including an arbitrary arrangement of some functional features combined with aesthetic aspects of a product design.[48] Indeed, in some jurisdictions, trade dress protection for the arrangement, collection, or combination of *only functional* features is still available,[49] which can leave significant room for a plaintiff to protect the "overall" trade dress of a product configuration.

VI. Conclusion

The Supreme Court's *TrafFix* decision clarified the functionality doctrine and the scope of trade dress protection for product configurations and, by doing so, clearly left room for courts to extend trade dress protection to product configurations when it is warranted. Indeed, it appears the Supreme Court's *TrafFix* decision has taken product configuration trade dress in the right direction. Although there arguably are more obstacles for a plaintiff to overcome, the road to trade dress protection remains open, with *TrafFix* leading the way.

Endnotes

1. *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001).
2. In much of the commentary and scholarly debate immediately following *TrafFix*, it was surmised that the Supreme Court's decision would narrow the scope of trade dress protection considerably. *See, e.g.*, Vincent P. Tassinari, *Claiming Trade Dress for a Feature Covered by an Expired Patent Just Got Harder*, Nat'l L.J., Apr. 30, 2001, col. 2; Robert P. Renke, *TrafFix Devices, Inc. v. Marketing Displays, Inc.: The Shrinking Scope of Product Configuration Trade Dress*, 91 Trademark Rep. 624 (2001).
3. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982).
4. *TrafFix*, 532 U.S. at 33.
5. "A prior patent, we conclude, has vital significance in resolving the trade dress claim. A utility patent is strong evidence that the features therein claimed are functional." *Id.* at 29.
6. "Where the expired patent claimed the features in question, one who seeks to establish trade dress protection must carry the heavy burden of showing that the feature is not functional, for instance by showing that it is merely an ornamental, incidental, or arbitrary aspect of the device." *Id.* at 30.
7. *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159 (1995).
8. *TrafFix*, 532 U.S. at 33.
9. *Id.* (quoting *Qualitex*, 514 U.S. at 165).
10. *See Nora Beverages, Inc. v. Perrier Group of Am., Inc.*, 269 F.3d 114, 120 n.4 (2d Cir. 2001) (upholding district court's finding of no trade dress infringement for water bottle design because bottle shape had not acquired secondary meaning and there was no likelihood of confusion, but stating, *in dicta*, the "district court may have found for [defendant] on the grounds of functionality in light of the Supreme Court's recent rulings which curtail trade dress protection by expanding the functionality doctrine.").
11. *Compare Valu Engineering, Inc. v. Rexnord Corp.*, 278 F.3d 1268 (Fed. Cir. 2002) (alternative designs relevant under traditional test for functionality); *Talking Rain Beverage Co. Inc. v. South Beach Beverage Co.*, 349 F.3d 601 (9th Cir. 2003) (same), *with Eppendorf-Netheler-Hinz GMBH v. Ritter GMBH*, 289 F.3d 351, 355–58 (5th Cir. 2002), *cert. denied*, 537 U.S. 1071 (2002) (alternative designs no longer relevant to functional inquiry unless feature is aesthetic); *Antioch Co. v. Western Trimming Corp.*, 347 F.3d 150 (6th Cir. 2003) (court not required to consider alternative designs under traditional test). *See also Maharishi Hardy Blechman Ltd. v. Abercrombie & Fitch Co.*, 292 F. Supp. 2d 535, 546 (S.D.N.Y. 2003) ("*TrafFix* bears strongly on the import of alternate designs to the question of functionality, but the exact holding on this point is highly elusive.").
12. *TrafFix*, 532 U.S. at 33.
13. *See Valu Engineering, Inc.*, 278 F.3d at 1276 (availability of alternate designs can be "a legitimate source of evidence to determine whether a feature is functional in the first place"); *Talking Rain Beverage Co. Inc.*, 349 F.3d at 603 ("The existence of alternative designs cannot negate a trademark's functionality. But the existence of alternative designs may indicate whether the trademark itself embodies functional or merely ornamental aspects of the product."); *see also Tie Tech, Inc. v. Kinedyne Corp.*, 296 F.3d 778 (9th Cir. 2002) (without citing *TrafFix*, court considered availability of alternative designs for webcutter but found alternative designs not sufficient to make a functional design become nonfunctional design).
14. *Valu Engineering, Inc.*, 278 F.3d at 1276. The court upheld the Trademark Trial and Appeal Board's findings that the ROUND, FLAT and TEE cross-sectional designs for conveyor guide rails were functional due to the utilitarian advantages of the design. The Board had weighed the following factors and found the design to be functional: (1) plaintiff's abandoned utility patent application disclosed utilitarian advantages in the ROUND, FLAT and TEE shapes of the guide rail designs; (2) plaintiff's advertising materials touted utilitarian advantages; (3) there were a limited number of alternate designs; and (4) the guide rail designs result in a simple, cheap method of manufacturing.
15. *See Eppendorf-Netheler-Hinz GMBH*, 289 F.3d at 358 ("[I]t is unnecessary to consider design alternatives available in the marketplace" because "alternative designs are not germane to the traditional test for functionality."); *Antioch Co.*, 347 F.3d at 155–56 (district court committed no error in rejecting proffered evidence concerning the availability of alternate designs for scrapbook albums).
16. *Eppendorf-Netheler-Hinz GMBH*, 289 F.3d at 358. Specifically, the fins, flange, plunger head, plunger, length of tips, eight sizes of tips, coloring scheme, and angle of the tips stumps were essential to the operation of the pipette tips.
17. *Id.* at 355 (citations omitted).
18. *See Antioch Co.*, 347 F.3d at 155–56 ("Critical for the present case, the Supreme Court stated that '[w]here the design is functional under the Inwood formulation there is no need to proceed further to consider if there is a competitive necessity for the feature.'"); *Baughman Tile Co., Inc. v. Plastic Tubing, Inc.*, 211 F. Supp. 2d 720, 724 n.5 (E.D.N.C. 2002) ("At a minimum, it is clear that, at any such time that functionality becomes evident based on any combination of factors, speculation regarding other possible designs is improper."). *See also* J. Thomas McCarthy, 1 McCarthy on Trademarks and Unfair Competition § 7.75 (4th ed. 2003).
19. Since *TrafFix*, all but one of the circuit court decisions have found the product configurations at issue to be functional under the traditional test. *See Clicks Billiards, Inc. v. Sixshooters, Inc.*, 251 F.3d 1252, 1258 (9th Cir. 2001) (pool hall trade dress).
20. *Eppendorf-Netheler-Hinz GMBH*, 289 F.3d at 355–58 (product design of a disposable pipette tip held functional because eight design features were essential to operation of the product).
21. *Antioch Co.*, 347 F.3d at 157 (product design for scrapbook album held functional because the features of the product design, namely a dual strap-hinge design, spine cover, padded album cover, and reinforced pages, whether viewed singly or collectively, were essential to the use of the album and affected its quality).
22. *Valu Engineering, Inc.*, 278 F.3d at 1276.
23. *Shire US Inc. v. Barr Laboratories, Inc.*, 329 F.3d 348 (3d Cir. 2003) (affirming district court finding that tablet shape and color combinations of an unpatented pharmaceutical drug were functional under the traditional test because similarity

in tablet appearance enhanced patient safety by promoting psychological acceptance).

24. *Talking Rain Beverage Co. Inc.*, 349 F.3d at 604–05 (bottle shape for bottled water held to be functional due to utilitarian advantages, namely, the grip feature, the essence of the water bottle design, made bottle easier to hold and offered structural support, and the bike bottle design allowed bottle to fit easily into bike holder. In addition, the plaintiff's advertising touted utilitarian features.). *See also Nora Beverages, Inc.*, 269 F.3d at 120 n.4 (stating *in dicta*, that "district court may have found for [defendant] on the grounds of functionality because the ribbed-cylindrical bottle "fits the hand more snugly and helps prevent slippage from condensation and perspiration" and the "bottle's 'waist' creates a very useful groove into which a thumb and forefinger can rest comfortably while at the same time providing a more secure grip of a relatively heavy bottle.").

25. *Waddington North America Business Trust v. EMI Plastics, Inc.*, 2002 WL 2031372, *4 (E.D.N.Y. Sept. 5, 2002) (S-shape lip feature of disposable plastic serving tray held to be "clearly" functional because it allowed covers of the tray to lock into place, prevented spillage, and allowed the trays to nest when stacked; spokes in serving trays held to be aesthetically functional because they enhanced the aesthetic appeal rather than identified the source).

26. *Club Protector, Inc. v. J.G. Peta, Inc.*, 2001 WL 1217215, *3 (N.D.N.Y. 2001) (white/green color, fabric, flap, and rear window on back of golf cart canopy held "entirely" functional because rain-repellent fabric was essential to keeping golf clubs dry, flap held canopy in place, plastic window allowed driver to see behind, functionality of white/green color not discussed).

27. *Baughman Tile Co., Inc.*, 211 F. Supp. 2d at 722–25 (court expressly stated that "utilitarian" functionality of tubing was at issue and then held that the yellow color of corrugated plastic tubing was functional because yellow tubing was reflective and, thus, remained stiffer in heat, was more readily identified in excavation, was the best color for visibility and was the commonly-recognized color of caution; court would not consider alternative colors that performed same functions).

28. *In re Dippin' Dots Patent Litigation*, 249 F. Supp. 2d 1346, 1372–74 (N.D. Ga. 2003) (product configuration of ice cream, comprising small round beads or pieces of colorful ice cream, was functional under the traditional test because the small beads created a creamier ice cream and the colors identified flavor. Product configuration also functional under the "competitive necessity" test because preventing competitors from making an ice cream product with these qualities would place them at a disadvantage unrelated to reputation, as well as the *Valu Engineering* test because a utility patent and advertisements disclosed utilitarian advantages of product design, and functionally equivalent designs were not available.).

29. *Straumann Co. v. Lifecore Biomedical Inc.*, 278 F. Supp. 2d 130, 135–36 (D. Mass. 2003) (overall design of dental implant held functional because, although plaintiff provided evidence that the individual features of the implant were not essential to the use or purpose of the device, plaintiff failed to establish that overall design did not affect cost or quality or was an arbitrary arrangement. Court did proceed to examine whether the two *arguably non-functional* individual features, i.e., the rounded bottom and the top of the thread, had acquired secondary meaning.).

30. *Malaco Leaf, AB v. Promotion in Motion*, 287 F. Supp. 2d 355, 366 (S.D.N.Y. 2003) (Although the court primarily focused on the aesthetic functionality of the fish-shaped design and the fact that the design was necessary for competition, the court did state that the fish-shaped product design was functional because the "flat back" is a result of the manufacturing process and the head, tail and scale pattern and eye were necessary to portray a fish.).

31. *See, e.g., Talking Rain Beverage Co. Inc.*, 349 F.3d at 605 (holding that product design was not arbitrary); *Eppendorf-Netheler-Hinz GMBH*, 289 F.3d at 358 ("Each of the eight design elements . . . is not [an] arbitrary or ornamental feature[]"); *Antioch Co.*, 347 F.3d at 158 ("[W]here individual functional components are combined in a nonarbitrary manner to perform an overall function, the producer cannot claim that the overall trade dress is nonfunctional.") (emphasis added); *Straumann Co.*, 278 F. Supp. 2d at 136 (plaintiff failed to establish that overall design was an arbitrary arrangement). Providing evidence that aspects of a product feature are "ornamental, incidental or arbitrary" is one way to prove a product configuration is nonfunctional. However, at least one court has implied that it is not the only way. Recently, in *Eco Manufacturing LLC. v. Honeywell Intern., Inc.*, 2003 WL 23096007 (7th Cir. 2003), the Seventh Circuit held that the district court did not abuse its discretion in denying a preliminary injunction based on a finding that the round external shape of a thermostat was functional because the thermostat was the subject of utility and design patents and, therefore, the plaintiff had a heavy burden to establish that the "roundness" was not essential or did not affect the price or quality of the product. The court pointed out, however, "[t]his is not to say that it would be impossible for [plaintiff] to carry its burden. *TrafFix* gave 'an ornamental, incidental, or arbitrary aspect of the device' as a for-instance, and not as an exclusive means to show non-functionality." *Id.* at *4 (emphasis added). The court made sure to clarify that it did not express "any ultimate view about functionality." *Id.* at *5.

32. *TrafFix*, 532 U.S. at 29 ("[I]n Wal-Mart, we were careful to caution against misuse or overextension of trade dress."). *See also, e.g., Shire US Inc.*, 329 F.3d at 358 ("[W]e have the benefit of the Supreme Court's most recent trade dress decisions which caution against the over-extension of trade dress protection.").

33. *See, e.g., Clicks Billiards*, 251 F.3d at 1258 (although individual features of trade dress were functional, overall image of pool hall was due to decorative and aesthetic decisions); *Yurman Design, Inc. v. Golden Treasure Imports, Inc.*, 275 F. Supp. 2d 506, 512 (S.D.N.Y. 2003), *reconsideration denied*, 218 F.R.D. 396 (S.D.N.Y. 2003) ("The aesthetic value of the cable design is arguably more important that any marginal functional benefit"); *E-Z Bowz, L.L.C. v. Professional Product Research Co., Inc.*, 2003 WL 22068573, *23 (S.D.N.Y. 2003) ("Much of the coloring and placement of graphics on the bow maker serve an *aesthetic* and ornamental purpose and are unrelated to the function of the bow marker.").

34. *See, e.g. Metrokane, Inc. v. The Wine Enthusiast*, 160 F. Supp. 2d 633, 638 (S.D.N.Y. 2001) (despite existence of prior utility patent, product design for rabbit corkscrew fit narrow exception set forth in *TrafFix* because aspects of the product features clearly were more "arbitrary, incidental [and] ornamental" than merely functional); *Yurman Design, Inc.*, 275 F. Supp. 2d at 512 ("[E]ven if the plaintiffs' prior [utility] patents were evidence of []functionality . . . the plaintiffs are able to satisfy the 'heavy burden' of showing that the cable element is merely an ornamental or arbitrary element of the jewelry design."); *Spotless Enterprises, Inc. v. A & E Products Group L.P.*, 2003 WL 22946431, *21 (E.D.N.Y. 2003) (despite fact that other features of a hanger design were the subject of utility patents, rectangular horizontal grooves on the top-sizer of a clothing hanger held to be nonfunctional under the narrow exception set forth in *TrafFix* because they were an "ornamental flourish").

35. Prior to *TrafFix*, at least one circuit had adopted a bright-line rule precluding trade dress protection for previously patent-

ed configurations. *See Vornado Air Circulation Systems, Inc. v. Duracraft Corp.*, 58 F.3d 1498, 1510 (10th Cir 1995).

36. *Clicks Billiards, Inc.*, 251 F.3d at 1258 (finding triable issue of fact as to whether pool hall trade dress was nonfunctional because, although individual elements were functional, overall image of pool hall was due to decorative and aesthetic decisions; court placed great weight on fact that the particular integration of elements left "a multitude of alternatives to the pool hall" industry); *Cf. Racetrac Petroleum, Inc. v. J.J.'s Fast Stop, Inc.*, 2003 WL 251318 (N.D. Tex. 2003) (gas station trade dress comprising drive-in pump configuration and yellow and black signs used to advertise gasoline prices were simply one variation selected from a limited number of ways to combine functional gasoline station/convenience store features, therefore, overall trade dress was functional).

37. *Maharishi Hardy Blechman Ltd*., 292 F. Supp. 2d at 548–49 (plaintiff satisfied burden of raising a factual issue as to whether arrangement of features in designer pant line was nonfunctional "especially in view of the uncertainty surrounding the functionality element following *TrafFix*," because under the traditional test a reasonable juror could conclude that the trade dress taken as a whole is an "arbitrary arrangement [] of predominantly ornamental features.").

38. *Yurman Design, Inc*., 275 F. Supp. 2d at 511–12 (despite prior utility patent for cable configuration, jewelry designs incorporating cable configuration held nonfunctional, in both a utilitarian and aesthetic sense, because trade dress protection was for various jewelry designs that incorporated cable, not for the cable design itself, and cable feature served an ornamental purpose).

39. *Coach, Inc. v. We Care Trading Co., Inc*., 2001 WL 812126, *7–*8 (S.D.N.Y. 2001), affirmed, vacated in part on other grounds, 2002 WL 32103175 (2002), *cert. denied*, 537 U.S. 1108 (2003) (upholding jury instructions indicating that handbag product configuration, comprised of glove-tanned leather, bound edges, heavy brass or nickel-plated brass hardware, and a hangtag with a beaded chain, could be nonfunctional if combination or arrangement of features viewed in their entirety were nonfunctional, even if individual features were functional).

40. *Metrokane, Inc*, 160 F. Supp. 2d at 638 (product configuration for rabbit corkscrew held nonfunctional because "rabbit's head" features clearly were more arbitrary, incidental, and ornamental, despite fact that functional elements of corkscrew were derived from a third-party utility patent).

41. *E-Z Bowz, L.L.C.*, 2003 WL 22068573 at *21–*24 (plaintiff provided sufficient evidence to create a genuine issue of material fact as to whether *overall* trade dress in a three retaining member bow-tying device was nonfunctional, despite fact that bow-tying device was subject of utility patent); court stated that "[w]hile many elements of [the plaintiff's] claimed trade dress are functional, the proper inquiry is not into the individual elements but the dress as a whole." *Id.* at *24. For example, there were some portions that were "ornamental and ha[d] no function in the bow making machine. Specifically, the color, grain and texture of the wood used in the bow maker ha[d] no relation to the actual function and operation of the device." *Id.* at *23.

42. *Spotless Enterprises, Inc.*, 2003 WL 22946431, at *21 (rectangular horizontal grooves on the top-sizer of a clothing hanger held to be nonfunctional under narrow exception set forth in *TrafFix* because they were an "ornamental flourish," despite fact that other elements of hanger design, i.e., upswept arms, clips, flat-top portion of the hook, and top-sizer, were subject of utility patents and thus were functional).

43. *Keystone Consolidated Industries, Inc. v. Mid-States Distributing Co., Inc.*, 235 F. Supp. 2d 901, 905–08 (C.D. Ill. 2002) (color red on top-wire strand for field fencing products and on barbs for barb wire products held nonfunctional because addition of color did nothing to enhance the efficacy of wire fencing and was not an indispensable feature, addition of color was ornamental and decorative, not essential to the use or purpose of wire fencing).

44. *General Motors Corp. v. Let's Make a Deal*, 223 F. Supp. 2d 1183, 1196 (D. Nev. 2002) (Hummer vehicle trade dress held nonfunctional because, although individual elements did serve a functional purpose, the overall finished product configuration had attained non-functional status; court, neglecting to cite *TrafFix*, explained that plaintiff had created a vehicle that was aesthetically different and that there were ample alternatives available).

45. *Logan Graphic Products, Inc. v. Textus USA, Inc*., 67 U.S.P.Q.2d 1470, *3–*4 (N.D. Ill. 2003) (overall product configuration of cutting tool comprising color scheme and shape, handles, rail guides and hinges held nonfunctional because, unlike *TrafFix*, functionality was not established by expired utility patent, the features were not required for competition and were not "something costly to do without"); *Cf. Tie Tech, Inc. v. Kinedyne Corp.*, 296 F.3d 778, 786 (9th Cir. 2002) (overall appearance of device for cutting through wheelchair-securement webbing held functional because individual elements of configuration—enclosed handle, rounded edges and prong that guides the web—were essential to the device's effective use).

46. *Keystone Consolidated Industries, Inc.*, 235 F. Supp. 2d at 905–08 (red color was ornamental and decorative, not essential to the use or purpose of wire fencing); *see also Newborn Brothers & Co., Inc. v. Dripless, Inc.*, 2002 WL 1899729 (TTAB June 25, 2002) (color yellow for caulking guns held nonfunctional and registrable as trademark).

47. *Maharishi Hardy Blechman Ltd.*, 292 F. Supp. 2d at 549 ("arbitrary arrangement [] of predominantly ornamental features").

48. *See, e.g., E-Z Bowz, L.L.C.*, 2003 WL 22068573 at *24 (holding overall trade dress could be nonfunctional, because "[w]hile some portions of this dress are functional, some are purely arbitrary"). In *Yurman Design, Inc.*, the defendants argued that the trade dress was functional because the cable configuration had functional uses, namely the cable designs allowed for "the creation of lightweight jewelry without sacrificing band strength and without the use of hinges." 275 F. Supp. 2d at 511. The defendants also relied on the existence of plaintiff's utility patent for a cable configuration used in various products. *Id.* Despite the existence of a prior utility patent, court held that "the defendants' reliance on the prior patent, even if the patent covered the cable used in the plaintiffs' designs, is insufficient to establish functionality, because . . . the plaintiffs seek trade dress protection on various designs, which incorporate cable, but that are primarily based on a unique arrangement of a cable design with the jewels and other elements of the jewelry." *Id.* at 512 (emphasis added).

49. *See, e.g., Coach, Inc.*, 2001 WL 812126 at *8 ("The *TrafFix* decision does not overrule Second Circuit law that a collection of functional features may nonetheless be protectable trade dress"). *But see Tie Tech, Inc.*, 296 F.3d at 786 ("Where the plaintiff only offers evidence that 'the whole is nothing other than the assemblage of functional parts,' our court has already foreclosed this argument, holding that 'it is semantic trickery to say that there is still some sort of separate 'overall appearance' which is non-functional.") (citation omitted).

Susan E. Farley is a partner and Alana M. Fuierer an associate with Heslin Rothenberg Farley & Mesiti, PC in Albany.

Trade Secret Law Practice: Keeping Secrets and Avoiding Liability

By Jonathan S. Shapiro and Natalia P. Good

I. Introduction

Both large and small businesses, as well as their inside and outside intellectual property counsel, must be aware of certain aspects of trade secret law that either can help maintain a company's competitive position and provide it with an effective remedy in the event of trade secret misappropriation or can result in liability based on receipt of a competitor's confidential information. This article provides an overview of trade secret law, including its application in the absence of confidentiality or noncompete agreements covering the relevant information and/or parties. As discussed below, the absence of a contractual duty does not make disclosure and/or use of another's trade secret "fair game"; trade secret law imposes certain obligations upon those entrusted with (or who otherwise receive) such information.

In general, a trade secret is any business information that (i) gives a company a competitive advantage by virtue of such information not being generally known to competitors or to the general public and (ii) is not capable of readily being discovered. In order to be protected as a trade secret, the information must be subject to reasonable efforts to preserve its confidentiality. Reasonable efforts may include limiting access to the information to those who absolutely need access and/or requiring those permitted to gain access, especially third parties, to sign a confidentiality agreement. While almost any type of information can qualify as a trade secret, common examples of trade secrets include formulas, manufacturing processes, computer software, marketing studies, business plans, and customer lists.

Aside from clearly improper means of obtaining a competitor's trade secrets, such as theft or bribery, liability will be imposed on those who use or disclose such information with notice that the information is a trade secret and with knowledge that it was obtained from a person who breached an express (*i.e.*, contractual) or implied (e.g., employer/employee relationship) duty to the trade secret owner to keep the information confidential. The knowledge, however, need not be actual knowledge, as a third party who either knew or should have known that the information was a trade secret that was disclosed in breach of a duty owed will be held liable for using and/or further disclosing the trade secret. Under the Uniform Trade Secrets Act (UTSA), which has been implemented by the vast majority of states, the definition of "misappropriation," in relevant part, encompasses both actual and constructive notice:

> acquisition of a trade secret of another by a person who . . . (B) at the time of disclosure or use *knew or had reason to know that his knowledge of the trade secret was* (I) derived from or through a person who has 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*. . . .[1]

Similarly, the Restatement of Torts, which is persuasive in the states that do not follow the UTSA, provides:

> To subject an actor to liability [for trade secret misappropriation], *the owner need not prove that the actor knew that its possession of the trade secret was wrongful; it is sufficient if the actor had reason to know.* Thus, if a reasonable person in the position of the actor would have inferred that he or she was in wrongful possession of another's trade secret, the actor is subject to liability for any subsequent use or disclosure. *A number of cases also subject an actor to liability if, based on the known facts, a reasonable person would have inquired further and learned that possession of the information was wrongful.* Studious ignorance of the circumstances surrounding the

acquisition of information thus will not necessarily avoid liability under this Section.[2]

The exception to the general rule of liability for trade secret misappropriation for one on "notice" is when a third party comes into possession of information that it reasonably does not understand to be a trade secret and materially changes its position before receiving the required notice.[3]

What does this mean for trade secret owners and for those who come into the possession of competitively sensitive information?

II. Protect Your Company's Trade Secrets

For trade secret owners, guarding trade secrets begins with identifying and cataloging information that is of commercial value to the company, such as information that a company or individual would need to enter the market and compete effectively. Next, it is important to implement corporate policies and procedures to safeguard such information.[4] It is also important to consider whether certain employees should be subject to confidentiality and noncompete agreements and whether third parties such as independent contractors, vendors, and licensees should be subject to nondisclosure agreements if they are privy to confidential business information. While beyond the scope of this article, the foregoing should be part of an overall intellectual property audit.[5]

As discussed further below, certain obligations are implied by law even in the absence of confidentiality or noncompete agreements. Nevertheless, the value of agreements with employees and third parties concerning trade secrets and confidentiality obligations should not be underestimated. Confidentiality agreements, among other virtues: (i) avoid any doubt regarding the existence of a special relationship between the third party or employee and the trade secret owner; (ii) identify the precise information that is subject to the confidentiality obligations; (iii) detail the rights and obligations of the parties during the existence of the relationship and thereafter; and (iv) cover jurisdictional and venue issues. Similarly, contract provisions concerning noncompetition often detail, among other things—aside from a general prohibition against working in a particular line of business in a specified geographic area for a defined time period—the nature of the confidential information at issue and the customers/clients the employee is prohibited from calling upon (and thus potentially revealing trade secrets to) after leaving the company's employ.

Upon first notice of an employee's resignation or termination, the employee should be reminded of his obligations to the company, including under any noncompete and/or confidentiality agreements that the employee has signed, and that he is prohibited from removing any information or materials belonging to the company. Similar precautions should be taken with respect to licensees or other third parties whose relationship with the company is coming to an end. In addition, it is advisable to put a competitor on notice that a departing employee who intends to join such competitor is in possession of company trade secrets and to remind the new employer that it should take precautions to ensure that its new employee does not violate his obligations by revealing same.

In certain circumstances, under the theory of inevitable disclosure, a trade secret owner can seek an injunction preventing its employees from accepting new employment with a competitor even in the absence of a valid and enforceable noncompete agreement. In "inevitable disclosure" cases, an employee is prohibited from accepting employment with a competitor altogether, or from working in a specific role for or division of a competitor, because the former employer's confidential or proprietary information necessarily will be divulged to the new employer in the ordinary course of performing the new job function.[6] In general, potential misappropriation is not enough; it must be shown that the threat of disclosure is imminent. Accordingly, some courts are more apt to apply this doctrine in instances where the employee has engaged in some form of dishonest or bad-faith conduct.[7]

III. Protect Your Company from Liability

For those coming into the possession of competitively sensitive information, it is critical to remember that an individual who is on constructive notice that the information in his possession (i) constitutes another's trade secret and (ii) was obtained through a breach of a duty owed to the trade secret owner can be liable for misappropriation. Since actual notice is not required, a third party cannot insulate itself from liability by acting with "studied ignorance" or by disregarding red flags indicating that the information they are receiving is likely covered by a nondisclosure or confidentiality agreement or other implied duty owed to the trade secret owner.[8]

For example, when hiring a competitor's former employee, that employee may continue to be bound by obligations of confidentiality or nondisclosure. Even in the absence of a written agreement, that employee owes an implied confidentiality obligation to a former employer such that trading upon that employee's particularized knowledge may subject the new employer to liability for trade secret misappropriation.[9] Accordingly, the hiring employer should take affirmative steps, such as explaining to its new hire that not only will he be required to safeguard the company's secrets but that the company requires that he not disclose to it the confidential information that he learned from his former employer.[10] The new employee should be required to represent, in writing, that he has been so informed.

Aside from an employer/employee relationship, an independent contractor, licensee, vendor, or other third party may owe a duty of confidentiality to a trade secret owner.[11] The beneficiary of that confidential information (*i.e.*, the one who receives the information from such third party) may be held liable for trade secret misappropriation depending upon the circumstances of the disclosure.[12]

As discussed, a trade secret owner must make "reasonable" efforts to maintain the secrecy of the information. Yet, if by accident or otherwise, despite such reasonable efforts, a limited public disclosure is made, it does not necessarily mean the end of trade secret protection or the absence of potential liability for those who come into possession of the information. If confidential materials are obtained innocently, *i.e.*, they are found abandoned on the street, once a third party is put on notice that the materials they have found contain confidential information, the later use of that information may subject the third party to liability. Under the UTSA, for example, liability can be imposed upon an individual to whom trade secrets are mistakenly disclosed even in cases where the individual is unaware that the information is a trade secret at the time of acquisition, as long as the individual becomes aware of the fact that the information is a trade secret before materially changing its position based upon the information disclosed.[13]

Finally, while businesses routinely make efforts to learn about their competition, it must be recognized that even otherwise lawful activity, if utilized to gain access to a competitor's trade secrets, can be unlawful. The classic example of this is *E.I. DuPont de Nemours & Co. v. Christopher*.[14] In *DuPont*, the court held that although aerial photography is lawful, its use to discover a competitor's trade secrets—in that case, a methanol production process—was improper. The court reasoned:

> Commercial privacy must be protected from espionage which could not have been reasonably anticipated or prevented. . . . A competitor can and must shop his competition for pricing and examine his products for quality, components, and methods of manufacture. Perhaps ordinary fences and roofs must be built to shut out incursive eyes, but we need not require the discoverer of a trade secret to guard against the unanticipated, the undetectable, or the unpreventable methods of espionage now available.[15]

The reasoning in *DuPont* was followed by the court in *B.C. Ziegler & Co. v. Ehren*,[16] in which a broker lawfully purchased discarded documents containing competitively sensitive information of its competitor (that were inadvertently left unshredded) from a scrap dealer. The court concluded that even though the defendant had not acted unlawfully, it would not be equitable to permit him to use the information acquired through such means.[17]

To minimize the risk of liability when researching a competitor, companies should avoid conduct specifically designed to overcome reasonable efforts that the trade secret owner has put in place to protect its trade secrets. If something is in plain view of or within earshot of the public from a location at which one is permitted to be (*i.e.*, without trespassing and/or misrepresenting oneself to gain entry), that is one thing, because the trade secret owner would arguably not be taking "reasonable" steps to maintain secrecy. But the risk of liability dramatically rises if one, for example, utilizes electronic surveillance technology to enhance that which one would otherwise not be able to see or hear.

IV. Conclusion

It certainly is advisable to enter into confidentiality and noncompete agreements with employees who need access to company trade secrets and to demand that third parties with access sign nondisclosure agreements in order to clarify the information that is deemed confidential and to clarify the obligations of the parties during and upon termination of the relationship. Nonetheless, even without such agreements, companies may be able to enforce trade secret rights against former employees or third parties who owe implied duties imposed upon those who receive (directly or indirectly) proprietary information. Conversely, companies must be apprised of the potential areas of liability that lurk when they receive a competitor's confidential information. This is an area of the law where ignorance definitely is not bliss; those who carelessly disclose and/or receive proprietary information do so at their peril.

Endnotes

1. Uniform Trade Secrets Act § 1, National Conference of Commissioners on Uniform State Laws, as amended 1985 (emphasis added). Forty-one states have enacted statutes modeled on the UTSA. Two states (Alabama and Massachusetts) have separate statutes protecting trade secrets, and seven states (Mississippi, New Jersey, New York, Pennsylvania, Tennessee, Texas and Wyoming) protect trade secrets under the common law.

2. Restatement (Third) of Unfair Competition § 40 cmt. d (1995) (emphasis added).

3. *See, e.g.*, UTSA § 1 (defining misappropriation in a case where a third party "before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake").

4. For example, companies should ensure that access to the company's most sensitive information is restricted to those who absolutely must have access to the information. Further, employees should be instructed not to discuss, for instance, the names of customers, clients, and projects in public places and only under certain circumstances should they share confidential information via e-mail or over the telephone. The company's specific policies and procedures with respect to keeping information confidential should be communicated to all employees at all levels of the company, periodically reviewed, and strictly observed. For a more extensive discussion of methods of safeguarding a company's trade secrets, see Jonathan S. Shapiro, *Protecting Trade Secrets in an IP Audit*, N.Y.L.J., Oct. 21, 2002 at S4.

5. *See id.*

6. *See PepsiCo., Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995); *FMC Corp. v. Varco Int'l, Inc.*, 766 F.2d 500 (5th Cir. 1982).

7. *See, e.g.*, *Analog Devices, Inc. v. Michalski*, 579 S.E.2d 449, 455 n.4 (N.C. Ct. App. 2003) ("North Carolina case law does allow for an injunction preventing an employee from working for a former employer's competitor where there is a showing of bad faith, underhanded dealing, or inferred misappropriation (justified by circumstances tending to show the new employer plainly lacks comparable technology. . . .)"); *DoubleClick, Inc. v. Henderson*, No. 116914/97, 1997 WL 731413, at *1 (N.Y. Sup. Ct. Nov. 7, 1997) (applying the inevitable disclosure doctrine based upon evidence of the employee's bad faith—evidence that the employee had begun to draft business plans and solicit customers for the new company while continuing to work for the prior employer).

8. *See, e.g.*, *Data General Corp. v. Grumman Sys. Support Corp.*, 825 F. Supp. 340 (D. Mass. 1993), *aff'd*, 36 F.3d 1147 (1st Cir. 1994) (finding that defendant acted with either studied ignorance or actual knowledge of the source of its competitor's software program); *C & F Packing Co. v. IBP, Inc.*, 93 C 1601, 1998 U.S. Dist. LEXIS 3221, at *19–*20 (N.D. Ill. Mar. 16, 1998) (finding that defendant likely was on "constructive notice that the information proffered by a third person [was] the trade secret" of the defendant's competitor even though the information was labeled "Property of [third party]" since "any information that [the third party] possessed regarding the processing of meat products likely came from its meat suppliers. [Defendant] was aware of the above fact and was further aware that suppliers generally maintain the confidentiality of their meat processing procedures.").

9. *See, e.g.*, *Rohm & Haas Co. v. Adco Chem. Co.*, 689 F.2d 424 (3d Cir. 1982) (finding defendant employer liable for trade secret misappropriation where it had knowledge that only the plaintiff made a certain product, that the product was difficult to replicate, that the new employee's experience could have come only from the plaintiff, and that the plaintiff treated its product development as confidential); *Linkco, Inc. v. Fujitsu, Ltd.*, 00 Civ. 7242, 2002 U.S. Dist. LEXIS 2543, at *12 (S.D.N.Y. Feb. 15, 2002) (denying defendant's summary judgment motion where court found sufficient evidence to establish that defendant discovered plaintiff's trade secret by improper means by meeting with plaintiff's former employee on several occasions and relying upon that information to create its own competing software program); *Carter Prods.*, 130 F. Supp. at 573 ("Colgate's action was wrongful [since] Colgate knew, or must have known by the exercise of fair business principles, that the precise character of [its new employee's] work with [its former employer] was, in all likelihood, covered by the agreement which [its new employee] had with [its former employer] not to divulge trade secrets"); *Anaconda Co. v. Metric Tool & Die Co.*, 485 F. Supp. 410 (E.D. Pa. 1980) (finding defendant employer liable for trade secret misappropriation where new employee's disclosures about his experience with former employer "went beyond the bounds of generalized skill and experience, which an employee is free to utilize after he leaves an employer"); *Greenberg v. Croydon Plastics Co.*, 378 F. Supp. 806, 814 (E.D. Pa. 1974) (defendant employer found liable for trade secret misappropriation where information gained from former key employee of small firm who "had to have some familiarity with the [firm's trade secrets] in order knowledgeably to perform his sales function").

10. *Carter Prods., Inc. v. Colgate-Palmolive Co.*, 130 F. Supp. 557, 574 (D. Md. 1955) ("Colgate was obligated to do more than it did towards ascertaining the extent to which [its competitor's ex-employee] was, in fact, restricted in what he might disclose to Colgate"), *aff'd*, 230 F.2d 855 (4th Cir. 1956).

11. *See, e.g.*, *Rockwell Graphic Sys. v. Dev Indus.*, 925 F.2d 174, 177 (7th Cir. 1991) (finding that plaintiff's disclosure of its trade secrets to third-party vendors constituted disclosure to "a limited number of outsiders for a particular purpose . . . necessary to the efficient exploitation of a trade secret, [which] imposes a duty of confidentiality on the part of the person to whom the disclosure is made.") (internal citations omitted).

12. *See, e.g.*, *BBA Nonwovens Simpsonville, Inc. v. Superior Nonwovens, LLC*, 303 F.3d 1332 (Fed. Cir. 2002) (finding absence of master-servant relationship to be irrelevant to defendant's liability for trade secret misappropriation where defendant acquired trade secrets from third parties who knew the information they were divulging was confidential); *Lamb-Weston, Inc. v. McCain Foods, Ltd.*, 941 F.2d 970 (9th Cir. 1991) (finding constructive knowledge of trade secret misappropriation where defendant hired independent contractor to develop an intricate device knowing that the contractor was making the same device for plaintiff and where defendant failed to provide the contractor with instructions even though the contractor assured the defendant that he would not use any of plaintiff's confidential information).

13. UTSA, National Conference of Commissioners on Uniform State Laws, as amended 1985 (emphasis added).

14. 431 F.2d 1012 (5th Cir. 1970).

15. *Id.* at 1016.

16. 414 N.W.2d 48 (Wis. Ct. App. 1987).

17. *Id.* at 53.

Jonathan S. Shapiro is a partner and Natalia P. Good is an associate with The Shapiro Firm in New York City.

So Similar and Yet So Different: The Right to Domain Names in Germany and the United States

By Deborah Drimmer

I. Introduction

The growing use of the Internet as a source of global business opportunities has led various countries to sign international treaties regarding the protection of intellectual property rights in this new medium. One of the major intellectual property issues involved in Internet disputes is the trademark rights of companies. Domain names, although they technically are only electronic addresses known as Universal Resource Locators, often are also attributed trademark functions. When consumers enter the names of well-known trademarks on their Web browsers, they expect to find the sites of the companies associated with the marks. As a result, companies have legitimate business interests in the domain names that are equivalent or similar to their trademarks. However, while in the real world there may be multiple companies and businesses utilizing the same trademark, either in different geographical areas or for different products, there is only one domain name for the trademark under each Top Level Domain (TLD) on the Internet.

"[W]hile in the real world there may be multiple companies and businesses utilizing the same trademark, either in different geographical areas or for different products, there is only one domain name for the trademark under each Top Level Domain (TLD) on the Internet."

Although the registration of a third party's trademark as a domain name is prohibited if no legitimate interest in the name can be shown, the scope of what constitutes a legitimate interest differs between the United States and Germany (which can be considered representative of the European Union) in several respects, including the registration of generic terms, the handling of two conflicting legitimate parties' interests in the same domain name, and the protection of famous marks.

I will illustrate some of these differences below.

II. Registration of Generic Terms

A. Introduction

While generally there is no trademark protection in the United States for generic terms unless secondary meaning is attached, this does not prohibit the registration of generic terms as domain names. The reason generic terms can be registered as domain names is that they can serve as electronic addresses and are not automatically given trademark protection and trademark rights. In other words, someone registering a generic term as a domain name could not prevent another person from registering the same term under another Top Level Domain or registering the same term with a different spelling. Therefore, no monopoly on the generic term is gained, and no special protection of the term is achieved.

Similarly to the United States, Germany also extends no protection to generic terms unless secondary meaning is attached.[1] Under German trademark law, generic terms include terms that describe a category, the properties, the quantity, the value, and the geographical origin of a product.[2] However, unlike the United States, Germany does not automatically permit the registration of generic terms as domain names. Under German law, "it is arguable that the registration of a generic domain for a commercial Web site may, under certain conditions, amount to an act of unfair competition."[3] Such domain names may, under certain conditions, mislead the public.

B. Descriptive Words

According to the decision of the highest German court in *Mitbewohnerzentrale.de*, the registration of descriptive terms as domain names is permitted so long as the Web site does not constitute a misleading representation or unfair hindering of competitors.[4] According to the court, a Web site using a descriptive domain name makes a misleading representation if it claims or appears to claim that it is the sole source for the searched product or service when it is not.[5]

The court distinguished between the hindering of a competitor and the mere channeling of users to one's Web site. It held that if the usage of a descriptive term as a domain name leads to user channeling,[6] it could be for two reasons. One reason would be that the user enters the term and has no desire to continue his search in order to look at additional choices. The second reason could be that the user believes he has found a site that offers access to all services and goods of the kind sought.

Therefore, according to the highest German court, if the user is aware that alternative Web sites and sources for the goods or services exist, the use of a generic term is not prohibited as a domain name. Accordingly, since the average user in most cases generally can easily determine that the offer on the site is from an individual source and does not represent the entire market, generic terms as domain names are permitted.[7] The court confirmed that there was nothing unfair about taking advantage of a generic term in order to attract customers, so long as one does not place oneself between the competitor and its customers in order to change the customer's purchasing decision or block the competitor from sufficient contact with its customers.[8] Such unfair hindering could be achieved by registering all other spellings of the generic term or registering the term under the other TLDs.[9] In other words, if someone who registers a generic term as a domain name in the TLD ".de" also registered the same term under the TLD ".com," he would show bad faith and unfair hindering of his competitors.

C. Geographical Origin

While geographical locations, which constitute generic terms, can be registered under U.S. law as domain names without violating any rights, that is not the case under German law. While city names might not be able to receive trademark protection under German trademark law, municipalities still receive protection for their names under the German civil code. Accordingly, the usage of a city's name as a domain name without any additional terms added is always a violation of the city's right in its name.[10]

Another reason why a city's name can only be registered as a domain name by the municipality is to protect the consumer from confusion as to the source of the Web page. According to German law, when a domain bears the name of a city, the consumer expects the information of the city to be distributed by the city directly and not by a private person.[11]

Even with additional terms added to a city name, German courts sometimes still hold that inclusion of the city's name in a domain name is a violation of the city's civil law rights. One example of a violation concerning the registration of a city's name with an additional term as a domain name is the Duisburg case. The lower state court of Duisburg held that the usage of a city's name as a "third level domain" name is a prohibited use of a name under the German Civil Code.[12] In that case the domain "www.k.cty.de" was considered a prohibited use because it could lead to confusion as to source. This court felt that the term "cty" was an insufficient qualifying term for the city "k" and still could cause consumer confusion as to the source.

On the other hand, the lower state court in Düsseldorf held that the right of a city to its name cannot hinder the usage of the city's name with the additional term "-info".[13] The court held that since none of the major German cities have Web pages with the additional term "-info," and these are generally offered by private parties, there is no likelihood of confusion as to source, and such use did not violate the city's right to its name because it still had sufficient use of it.[14]

III. The Priority Principle

In the real world under U.S. and German law, concurrent uses of the same trademark in different classes of goods and geographical areas is permitted, since they are not used in competing markets and attract different customers. This concept poses problems for the Internet, since the Internet has no boundaries, and the customers of different products with the same trade name will attempt to enter the same Internet address. For example, a customer from "Smith Shoes" and a customer from "Smith Bakery" both will likely enter "www.Smith.com" in order to find the products they are looking for. Until adequate technical solutions can be found to address this sort of confusion, under U.S. law, owners of identical trade names each have a legitimate right to the domain name corresponding to their trademark, and the first to register is permitted to keep it.

The question is whether courts are correct in taking the first-come/first-served approach to the registration of domain names. This approach is questionable because of the fact that entities sometimes are permitted to use a famous mark in a restricted manner because they had used the same mark prior to the more famous usage of the same mark. Should the owner of the mark, which only can be used in a very limited manner, be permitted to utilize the corresponding domain name just because he or she was the first to register it? Would it not be more appropriate to grant that use to the owner of the famous mark? In Germany, as in many European countries, the priority principle applies only to generic terms, as discussed above.

In general, when more than one party has a right to the use of a trademark, the later one to have registered it is responsible for adequately distinguishing it from the first.[15] Therefore, even when two trademark holders have a right to use the same trade name, it is the junior mark holder's responsibility to adequately distinguish his use from the first in order to avoid a likelihood of confusion. As such, it is the holder of the junior mark who is obligated to add qualifying terms to its domain name in order to avoid consumer confusion.

". . .German courts are developing certain trends granting the owners of very famous and distinct trademarks the right to the domain name corresponding to that mark even if someone else with legitimate interest registered the domain name first."

In addition, under German law famous marks usually are given rights to the domain names corresponding to their trademarks, based on the reasoning that consumers should be protected from unnecessary confusion. Another reason why under German law the owner of the famous mark usually is given the rights to the corresponding domain name is that he/she has more economic interest in the trade name than the holder of the same trade name who is less famous.

IV. Famous Marks

As noted above, under U.S. law the owner of the famous mark is not entitled to the domain name if another party with a legitimate right to the trademark was first to register it as a domain name. However, as indicated above, German courts are developing certain trends granting the owners of very famous and distinct trademarks the right to the domain name corresponding to that mark even if someone else with legitimate interest registered the domain name first. The easiest way to explain this trend is that famous marks enjoy strong protection that is not affected by the fact that the competing mark is for different goods or services.

As stated above, even if a junior trademark for a different class of goods and services is permitted, the mark that joins the market later has to distinguish itself from the existing one.[16] Therefore, since domain names are limited, it is the junior mark that has to continue to distinguish itself from the famous mark. The junior mark has to add a qualifying term to its trademark as a domain name and would have to leave the domain name that consists only of the trade name to the trademark holder that was first in the market and/or owns the famous mark.

V. Unlawful Hindering of the Commercial Exploitation of a Mark

Both the United States and Germany hold that cybersquatting is unlawful. When U.S. courts have held cybersquatting unlawful, they have based that finding partially on the fact that trademark dilution can be found when an entity's conduct diminishes the capacity of a trademark owner "to identify and distinguish [its] goods and services on the Internet."[17] Thus, even if the cybersquatter does not make an effort to sell the domain name to its rightful owner, he still hinders the trademark holder from conducting business with his mark on the Internet and thereby from properly exploiting the mark.[18] Preventing a trademark owner from using his own trade name on the Internet must be viewed as equivalent to blocking the entrance to a shop and, therefore, as a loss of an opportunity for potential profit. If a trademark owner is prevented from having consumers look at his/her products, he or she is prevented from commercially exploiting his/her trademark. Therefore, the courts' expansion of trademark dilution law to include dilution by elimination—the hindering of the commercial exploitation of a mark—is appropriate in light of the new medium of commerce.[19]

While German law prohibits cybersquatting for similar reasons, its scope of protection of a famous mark goes further than cybersquatting. When looking at the trademark holder's rights, German law looks not only at trademark law and the civil code, but also at German unfair competition laws. The objective of the German unfair competition laws is to protect competitors, market participants, and the general public against unfair competition.[20] The protection of the general public is based on its expectations and its likelihood of confusion.[21] In general, German courts apply trademark law to cases involving commercial uses of the mark, while the civil code protects the right to one's name, which is applied to cases involving private uses. When looking at private uses, German law tries to balance the competing interests of the trademark holder with those of the private person who also has a right to the name. Since the famous mark has more economic interest invested in the name, and since the general public expects to find the famous mark under the domain name that is equivalent to the mark, the famous mark usually prevails in cases concerning the right to a domain name that is equivalent to the famous trademark.

One of the major German high court decisions, the "shell.de" case, is an important illustration of the balancing of the commercial interest against the interests of a private person that weighed in favor of the famous mark.[22] In this case, the plaintiff was Deutsche Shell GmbH, a subsidiary of Shell Company, which was originally founded in 1917 as Deutsche Shell AG. The defendant was Andreas Shell, who started a business offering his service for translations and news office (Pressebuero) as a second income.[23]

The highest German court determined that when a defendant uses his own name, it cannot be considered an unlawful use of the name or trademark. A person using his lawful name is entitled to use his name commercially. However, there might be limitations on how he can use it. If two parties both have a right to the same name, one has to weigh the interests of the name bearers. This generally means that two things must be considered: (1) whether one mark is a famous one and the other is not; and (2) who registered the name as a trademark first.

In this case, "Deutsche Shell GmbH" was a very famous mark and was the first to have owned trademark rights in the name. Therefore, while Andreas Shell had a right to use his name, he was required to distinguish his mark adequately from the famous mark that had trademark priority. This also means adequate distinction as a domain name in order for "Deutsche Shell GmbH" to be able to commercially exploit its mark properly and for consumers not to be initially confused when trying to find "Deutsche Shell GmbH" on the Internet. Consequently, the plaintiff was entitled to the domain name that reflected its trademark, and the defendant was entitled to use his name only with distinguishing additional terms.[24]

Another good case illustrating the strong protection awarded to famous marks is the German highest court decision in the "joop.de" case. The plaintiff was the internationally known fashion designer Wolfgang Joop, who has been a fashion designer since the 1960s. Wolfgang Joop founded Joop Fashion GmbH in 1988, which was changed to Joop! GmbH in 1993. The defendant, who is related to the plaintiff, has used his name to sell pianos and the like since the 1970s. He registered the domain name in 1999. For reasons similar to those of the "Deutsche Shell GmbH" case, the court held that the junior trademark holder had to ensure that there would not be a likelihood of confusion; thus, the junior trademark holder was required to have a distinction in his domain name such as "jooppianohaus.de". In holding for the plaintiff, the fact that the defendant had used the domain for several years was irrelevant.[25] Both of these cases emphasize the German approach that the more famous a mark is, the more protection it is entitled to receive.[26]

VI. Conclusion

The views and attitudes in the United States toward domain names differ from those in Germany. Anyone's right to register generic terms as domain names is taken for granted in the United States, and limitations on this right seem difficult to comprehend intuitively. However, these limitations seem natural in the German legal context. There, while descriptive generic terms can be registered as long as the Web site does not give the appearance or claim of being the sole source for the products or services offered, the registration of all spellings of the term or the registration of the term in several TLDs would be prohibited. Further, in the United States there is no limitation on the registration of city names as domain names, and the average user would not expect the domain name bearing a city's name to be established by the city municipality. The opposite is the case in Germany, where registration of the city's name without additional terms as a domain name is limited to the city municipality.

> *"The idea that famous marks get more protection and can get domain names transferred to them seems intuitively unfair to the U.S. mindset."*

Another distinction illustrated above is the handling of identical trademarks for different classes of goods or services. In the United States, when two parties each have rights to the same trade name, the first to register it as a domain name is entitled to keep it. In the United States no special consideration is given to the fact that one trademark is famous while the other is not. This is in sharp contrast to the German position, which grants famous marks more protection and requires junior marks to adequately distinguish themselves from the famous marks not only in the real world but also in the domain name context.

The idea that famous marks get more protection and can get domain names transferred to them seems intuitively unfair to the U.S. mindset. It seems as if the bully, who has more money and power, will always be able to win against the weaker party. However, this position also can be viewed from another angle, namely that the party that has invested the resources for their trademark recognition should be able to harvest the fruits of that labor. In other words, it would be unfair for a lesser known trademark holder to attract consumers to his Web page who wanted to view the Web page of the famous mark. Which country has the right approach is still unclear, but the differences are important to note for those companies that want to enforce their trademark rights in Germany.

Endnotes

1. Dirk Wuestenberg, *Das Namensrecht der Domainnamen*, Gewerblicher Rechtsschutz und Urheberrecht, Grur 2/2003, Verlag C.H. Beck, 109, 110.

2. Andreas Freitag, *Marken-und Kennzeichenrechte im Internet*, Handbuch zum Internetrecht, 2.Auflage, Detlef Kroeger, Marc A. Gimmy, (2002) 459, 462.
3. Esprit Project 27028, *Electronic Commerce Legal Issues Platform*, at 2, at http://europa.eu.int/ISPO/legal/en/lab/991216/recomm_user-protection.pdf.
4. *Mitbewohnerzentrale.de*, MMR 10/2001, 666, BGH Urteil von 17.5. 2001 (OLG Hamburg, LG Hamburg).
5. *Id.*
6. Channeling is a directing of customers exclusively to a specific Web page.
7. *Mitbewohnerzentrale.de*, MMR 10/2001, 667.
8. *Id.* at 668.
9. *Id.*
10. *Duisburg-info.de*, MMR 09/2001, 628, Urteil 9.5.2001 (LG Düsseldorf:); *Herzogenrath.de*, MMR 1999, 556 (OLG Koeln).
11. *Incorporated v. Excelentisimo Ayuntamiento de Barcelona*, 330 F.3d 617, 628 (4th Cir. 2003) (referred to as "*Barcelona.com*"); *see also Luckau.de*, K & R 2000, 406, 407 = *MMR* 2001, *174*, *175* (*OLG Brandenburg*).
12. *Staetenamen als "Third Level Domain"*, MMR 03/2000, 168, Urteil 2.12.1999 (LG Duisburg).
13. *Duisburg-info.de*, MMR 09/2001, at 626.
14. *Id.*
15. Freitag, *Marken-und Kennzeichenrechte im Internet*, at 466.
16. *Id.*
17. *Panavision International, L.P. v. Toeppen,* 141 F.3d 1316, 1326 (9th Cir. 1998) (interpreting 15 U.S.C. § 1125(c)).
18. *Panavision International L.P. v. Toeppen*, 938 F. Supp. 616, 621 (C.D. Cal 1996).
19. *Id.* at 657.
20. Andreas Freitag, *Wettbewerbsrechtliche Probleme im Internet*, Handbuch zum Internetrecht, 2.Auflage, Detlef Kroeger, Marc A. Gimmy, (2002), 414, 424.
21. *Id.* at 425.
22. Freitag, *Marken-und Kennzeichenrechte im Internet*, at 475.
23. *Shell.de*, MMR 06/2002, 382, BHG Urteil von 22.11.2001.
24. *Id.* at 384.
25. *Joop.de*, MMR 10/2000, 622(LG Hamburg).
26. *Id.*

Deborah Drimmer is a Ph.D. of Law candidate at the Humboldt University of Berlin. She received her J.D. from the Brooklyn School of Law and an LL.M. in Intellectual Property from Cardozo Law School.

IP Litigation and Enforcement in Indonesia

By Deborah Menon

I. Introduction

Spread over 3,000,000 square miles of ocean, with more than 17,000 islands between Asia and Australia, Indonesia is the largest archipelago in the world. With a population of 220 million, it is the fourth largest country in the world and an important market for many U.S. companies. As intellectual property (IP) plays an increasingly important role in international trade, the level of IP protection and enforcement afforded by Indonesia has had an impact on international economic relations between the United States and Indonesia.

Indonesia has been identified by the Office of the United States Trade Representative (USTR) as a trading partner with serious IP problems that adversely affect U.S. commercial interests. In a report issued on May 1, 2003, the USTR left Indonesia on the Priority Watch List for the third consecutive year for failing to provide an adequate level of IP protection or enforcement.[1] Nevertheless, the report acknowledged that while significant problems remain, Indonesia has taken some noteworthy steps to strengthen its IP regime over the past year and is responsive to private sector requests for enforcement assistance.

This article summarizes the IP regime currently in force in Indonesia and the steps that have been taken to improve both the level of protection available and the means of enforcement.

II. A TRIPS-Compliant IP Regime

Indonesia joined the World Trade Organization (WTO) on January 1, 1995. As a WTO member, it was obligated to put into effect national legislation to implement much of the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) before January 1, 2000. In order to comply with the TRIPS Agreement, Indonesia has overhauled its IP regime by enacting new, as well as amending existing, IP laws. The changes include:

1. Civil IP cases now come under the jurisdiction of the Commercial Court. IP cases previously were handled by the District Court.[2]
2. Certain IP cases must be adjudicated within prescribed time periods in both first-instance and higher-level courts:
    - trade mark, copyright: 90 days from the date of filing.[3]
    - patent: Cassation Decision 180 days from date of filing.[4]
3. The right of appeal against first-instance decision lies directly to the Supreme Court by way of a Cassation Action.[5]
4. IP laws now specifically define the form and type of infringement and provide for damages to be claimed.[6]
5. IP laws now provide for criminal sanctions for IP rights violations:

IP Right	Imprisonment (max.)	Fine (max.)
Copyright[7]	7 years	Rp. 1,000,000,000 (about US $120,000)
Patent[8]	4 years	Rp. 500,000,000 (about US $60,000)
Trade mark[9]	5 years	Rp. 1,000,000,000 (about US $120,000)
Industrial Design[10]	4 years	Rp. 300,000,000 (about US $35,000)

6. IP laws now provide for provisional remedies such as injunctions, prevention of entry of infringing goods, and preservation of evidence with regard to the infringement. These provisional remedies are available even before the case is actually filed in court, enabling preservation of evidence and cessation of the infringing activity immediately.[11]
7. IP laws now provide for a defendant to be indemnified against damages arising from provisional measures which ultimately are cancelled by the court.[12]
8. The Customs laws now provide for the prohibition of and restrictions on the import and export of goods which infringe trade marks or copyrights.[13]

III. Enforcement Strategies

A. Clearing the Trade Mark Register

With respect to trade marks, a simple and effective starting point for any anti-counterfeiting program is the Trade Mark Register itself. A simple search may be conducted on the Trade Mark Register to ascertain whether identical or similar marks have been registered.

Indonesia does not protect unregistered trade marks. Therefore, it is important to register a trade mark to secure protection and guard against trade mark piracy. Indonesia's "first-to-file" system has been open to abuse, with many an unscrupulous trader quickly filing and registering trade marks rightly belonging to foreign trade mark owners.

A spectacular example of the importance of registering a trade mark is the DAVIDOFF case.[14] Last month, following a 25-year dispute, the Supreme Court finally ordered the cancellation and deletion of two registrations for DAVIDOFF held by one of the largest and best-known local cigarette manufacturers. These marks had been registered in 1979 and two court battles had been waged over the last fifteen years. The first was filed in 1989 in the District Court and the second, more recently, in 2002 in the Commercial and Supreme Courts.

B. Overt or Covert Assignments

Where the clearance search reveals the existence of an offending registration, an application may be made to the Commercial Court to delete or cancel the registration. However, a quicker and cheaper alternative to litigation is to obtain an assignment of the registered mark. This strategy involves the attempted purchase of the offending registration at a "local Indonesia price" by investigators posing as local businessmen seeking assignment of the mark to a local front company. If the approach is successful, the mark can be reassigned from the local front company to the legitimate trade mark owner.

In some cases it has been possible to purchase marks very quickly at a cost of approximately US $10,000 (including investigators' fees and legal costs). However, much depends upon how quickly the negotiations are concluded successfully.

C. Cease-and-Desist Letters

Generally, in the first instance, the IP owner issues a cease-and-desist letter informing the infringer of the rights of the IP owner and requesting immediate cessation of the infringing activity within a stipulated deadline, usually a period of ten to fourteen days from the date of issuance of the letter. An undertaking requiring the infringer's signature is also enclosed.

This mode of enforcement generally is successful where the IP owner and the infringer do not want to engage in litigation. It has been particularly successful in enforcing well-known trade marks. In most cases, a certain amount of negotiation takes place between the parties following issuance of the letter. The matter is usually concluded with the infringer undertaking to cease the infringing activity immediately in exchange for the IP right owner's forbearance from taking any legal action and waiving damages.

IV. Litigation

If non-litigation routes are not successful, then the IP owner may choose to litigate. The various IP laws specifically define the form and type of infringement and provide for damages to be claimed. The Indonesian courts can order large damages awards. In 2001, for instance, five computer dealers were found guilty of copyright infringement and ordered to pay a record US $9 million in damages to Microsoft.[15] This was a landmark case in that it was not only the first successful copyright infringement case in Indonesia but also the first case in which such a substantial award of damages had been made.

In addition to infringement, actions may be filed to cancel or delete a trade mark registration or to invalidate a patent, industrial design, or copyright registration.

V. Enforcement Authorities

A. Police

The police will act upon complaint from the IP owner in cases where infringement is clear, such as where the infringing mark is identical, or virtually identical, to the complainant's registered trade mark. Once the police have determined that there is sufficient evidence to establish infringement, warrants will be issued by senior police officials to allow for search and seizure of infringing goods and relevant documents and arrests.

The police are under-funded and therefore have few resources at their disposal. The IP owner usually will be expected to provide transportation and storage facilities. The decision whether to prosecute rests entirely with the public prosecutor. Generally, it takes about three to four months from the filing of the complaint to the commencement of criminal proceedings.

Given the time and effort involved in prosecution, the preferred post-raid conclusion is to broker a settlement with the raided party. The police will assist in obtaining a signed undertaking from the raided party that all infringing activity will cease thereafter. The raided goods then may be destroyed by the IP owner.

B. Customs

Under the Customs Law, the Directorate General of Customs and Excise (DGCE) may prevent the circulation of goods that infringe trade mark or copyright by temporarily delaying the import or export of such goods.[16] The detention of imported or exported goods may be executed by the DGCE in its own capacity if there is cogent evidence that such goods are infringing.[17] Alternatively, an IP owner may apply to the District Court to obtain a court order instructing the DGCE to delay the import or export of infringing goods.[18]

> *"[I]t should be noted that while there are provisions in the Customs Law that can be relied upon to enforce IP rights, the necessary regulations still have not been issued."*

However, it should be noted that while there are provisions in the Customs Law that can be relied upon to enforce IP rights, the necessary regulations still have not been issued. This lacuna has led to a situation where although the law allows for the enforcement of IP rights through the DGCE, in practice it is very difficult to engage this enforcement mechanism.

VI. Conclusion

Thus, while its IP regime has fallen short of providing fully effective and comprehensive protection and enforcement, Indonesia has taken measures to improve its IP framework. There are a number of mechanisms—litigious and non-litigious—that IP owners can use to protect and enforce in Indonesia intellectual assets that are integral to international trade. The election of which particular mechanism(s) to use is, in turn, dependent on a variety of factors, including the nature of the IP right itself, the size of the infringement, the size of the infringer's business operations, time, and, of course, cost.

Endnotes

1. Special 301 Report—http://www.ustr.gov/reports/2003/special301-pwl.htm#indonesia.
2. Trademarks Law (Law No. 15 of 2001), arts. 61(5), 68(3), 76(2); Copyright Law (Law No. 19 of 2002), art. 56 (1); Patent Law (Law No. 14 of 2001), art. 118; Design Law (Law No. 31 of 2000), art. 46(2).
3. Trademarks Law (Law No. 15 of 2001), art. 80(8); Copyright Law (Law No. 19 of 2002), art. 59.
4. Patent Law (Law No. 14 of 2001), art. 123.
5. Trademarks Law (Law No. 15 of 2001), art. 82; Copyright Law (Law No. 19 of 2002), art. 62(1); Patent Law, art 122; Design Law (Law No. 31 of 2000); art. 40.
6. Trademarks Law (Law No. 15 of 2001), art. 76; Copyright Law (Law No. 19 of 2002), art. 56; Patent Law (Law No. 14 of 2001), art. 118; Design Law (Law No. 31 of 2000), art. 46(1).
7. Copyright Law (Law No. 19 of 2002), art. 72.
8. Patent Law (Law No. 14 of 2001), arts. 130 and 131.
9. Trademarks Law (Law No. 15 of 2001), art. 90.
10. Design Law (Law No. 31 of 2000), art. 54.
11. Trademarks Law (Law No. 15 of 2001), art. 85; Copyright Law (Law No. 19 of 2002), art. 67; Patent Law (Law No. 14 of 2001), art 125; Design Law (Law No. 31 of 2000), art. 49.
12. Trademarks Law (Law No. 15 of 2001), art. 88; Copyright Law (Law No. 19 of 2002), art. 70; Patent Law (Law No. 14 of 2001), art. 128; Design Law (Law No. 31 of 2000), art. 52.
13. Customs Law (Law 10 of 1995), art. 54.
14. Supreme Court of Indonesia Case Nos. 011 and 012/PK/N/HaKI/2003.
15. *Microsoft Corp. v. PT Kusomo Megah Jaya Sakti (Procom)*, 24 September 2001, West Jakarta District Court, Indonesia. *Microsoft Corp. v. PT Panca Putra Kumputindo, HM Computer, HJ Computer & Altec Computer*, Oct. 4, 2001, Central Jakarta District Court, Indonesia.
16. Customs Law (Law 10 of 1995), art. 54.
17. *Id.*, art. 62.
18. *Id.*, art. 54.

Deborah Menon is an attorney with Rouse & Co. International in Jakarta, Indonesia.

Why Should Radio Stations Pay? The Controversy Over Royalty Liabilities for Radio Stations That Simultaneously Stream Their Broadcasts Over the Internet

By Christopher L. Barbaruolo

I. Introduction

The recording industry today stands in much the same position as the film industry did two decades ago. For fear that the VCR would undercut the traditional allure of movie theatres, the film industry vigorously opposed the manufacture and sale of VCRs, both in Congress and in the courts.[1] Even though the industry lost both contests, it benefited ultimately from the new revenue gained from the sale of videocassettes. Similarly, today the recording industry fears that digital music products, such as Internet streaming,[2] will supplant traditional record sales. Recently, the District Court for the Eastern District of Pennsylvania was faced with the issue of whether AM/FM radio broadcasters, which are exempt from royalties for broadcasting their programming over the air, remain exempt when the same programming is simultaneously streamed over the Internet.[3] There is no Supreme Court guidance on this issue, nor has Congress expressly addressed it. In fact, the only authority on which the court based its decision was the Copyright Office's Final Rulemaking.[4] The court agreed with the Copyright Office and found that the broadcasters are not exempt for their digital streaming transmissions.[5]

There are two principal guideposts pertinent to technological advancement upon which Congress relies when enacting or amending copyright legislation bearing upon digital music transmission. First, Congress is concerned with the negative effect that Internet piracy could have on the copyright owners' potential to earn revenue.[6] Since the copying capabilities associated with digital transmissions over the Internet are continually being enhanced, the policy of protecting copyright holders against reduced sales as a result of these improved capabilities is strong. Second, there is a long standing congressional policy of striking a prudent balance between the interests of the recording industry and those of broadcasters so as to avoid creating a windfall for the former.[7] This policy is especially relevant in the digital age[8] where revenue can so easily be displaced by the push of a button. However, fair compensation to the copyright holders is secondary to the public benefit.[9] With that in mind, this article addresses the harsh repercussions of the Copyright Office ruling and subsequent court decisions, the relevant legal and economic arguments related to the radio streaming issue, and relevant policy considerations.

II. Legislative Background

U.S. copyright law has long recognized an exclusive right of public performance in a musical composition.[10] However, copyright protection for sound recordings embodying musical compositions is a considerably newer concept.[11] Until recently, Congress had resisted according copyright protection to sound recordings of musical compositions.[12] It was not until the Sound Recording Amendment of 1971 that Congress first extended limited federal copyright protection to sound recordings.[13] Congress made plain that this new limited copyright did not confer a public performance right, as it was restricted to the direct reproduction of the original recording.[14] This provision became permanent with the enactment of the Copyright Act of 1976.[15]

In 1990, digital audio services began transmitting sound recordings in the United States.[16] Congress viewed these digital audio services[17] as a possible substitute for recorded music that had the potential to injure the recording industry's market.[18] Thus, Congress enacted the Digital Performance Right in Sound Recordings Act of 1995 (DPRA),[19] which afforded copyright owners of sound recordings the exclusive right of public performance by way of certain digital audio transmissions.[20] The legislation was narrowly drafted to address concerns regarding the likely impact on record sales of specific types of subscription[21] and interactive audio services.[22]

However, the legislation addressed neither free over-the-air broadcast services[23] nor Internet streaming.[24] The impetus for this legislation appeared to be the prospect that listeners were capable of downloading and copying music from online services.[25] Therefore, Congress included in the DPRA a three-tiered system for categorizing digital transmissions based on their potential to affect record sales.[26] This article focuses on section 114's final category, which exempts "nonsubscription broadcast transmission[s]" from the sound recording performance right.[27] Congress viewed these transmissions as posing little or no threat to replace sales of sound recordings.[28]

Subsequently, in 1998, Congress further amended the Copyright Act with the Digital Millennium Copyright Act of 1998 (DMCA).[29] In the DMCA, Congress abrogated the first two exemptions that had been included in section 114(d)(1)(A) under DPRA,[30] but retained the exemption for nonsubscription broadcast transmissions. Congress also set forth the requirements for exemption, which included being (i) a nonsubscription broadcast transmission, (ii) a retransmission of a nonsubscription broadcast transmission not willfully or repeatedly transmitted more than a 150-mile radius from the site of the radio broadcast transmission, or (iii) a noncommercial educational broadcast station.[31] To qualify for the exemption, the transmission must be tailored to the general public rather than to subscribing individuals, and it must be noninteractive.[32]

This new round of amendments attempted to address streaming or webcasting[33] over the Internet.[34] Specifically, one of the purposes of the DMCA was to specify that the "digital sound recording performance right applies to nonsubscription digital audio services such as webcasting."[35] Both the DPRA and DMCA demonstrate Congress's concern with the potential of Internet piracy and the resulting loss of revenue[36] for recording artists and record companies. However, neither Act expressly addresses a radio station's right to simultaneously stream its radio broadcasts over the Internet without having to pay a royalty to the copyright owner.[37]

III. Legal Background

A. Copyright Office Ruling

As a general rule, radio stations licensed by the Federal Communications Commission (FCC) are permitted to broadcast sound recordings over the air in their geographic regions without having to pay royalties to the copyright owners of those sound recordings.[38] Broadcast radio stations must pay royalties to the owners of the musical compositions but not to the recording artists or record companies. The Recording Industry Association of America (RIAA) petitioned the Copyright Office to adopt a rule clarifying that a radio broadcaster's simultaneous broadcast that is streamed over the Internet is not exempt from royalties under section 114(d)(1)(A).[39] The RIAA contended that until the Copyright Office fashioned such a ruling the parties were deadlocked over who qualifies for the section 114 performance license.[40]

On March 16, 2000, the Copyright Office ruled in favor of the RIAA when it issued a notice of a proposed rulemaking.[41] A motion by the AM/FM broadcasters to suspend the ruling was denied,[42] and the Copyright Office announced its final ruling in December 2000.[43] The final ruling provided that AM/FM broadcast signals transmitted simultaneously over a digital communications network, such as the Internet, do not fall within the exemption for "nonsubscription broadcasts" under section 114(d)(1)(A).[44] Moreover, the rule stated that the exemption for making ephemeral copies of recordings for the limited purpose of effecting a transmission, governed by section 112,[45] does not apply to streaming audio broadcasts.[46] In so ruling, the Copyright Office construed "broadcast transmission" to include only "over-the-air transmissions" made by an FCC-licensed broadcaster.[47] The Copyright Office also amended the definition of "service" to provide that "any entity that transmits an AM/FM radio station over a digital communications network is subject to the terms of the statutory license set forth in 17 U.S.C. § 114(d)(2)."[48] Therefore, radio stations that want to stream (or webcast) their radio transmissions over the Internet must obtain a license from the copyright owners. Those radio stations that fail to comply may end up on the wrong end of a lawsuit for copyright infringement and thus potentially be liable for statutory damages of up to $150,000 per infringement.[49] Dissatisfied with this ruling, the radio station broadcasters sought judicial review in Pennsylvania district court.

B. *Bonneville Int'l Corp. v. Peters*

AM and FM radio broadcasters sued the RIAA and the Copyright Office[50] seeking to overturn the Copyright Office's final ruling that radio stations were restricted from simultaneously streaming their radio broadcasts over the Internet without having obtained licenses for such streaming.

After a detailed analysis of this highly technical issue, the district court upheld the Copyright Office's final rulemaking.[51] The district court's opinion on this issue is discussed critically in section V below.

C. AM/FM Broadcasters' Motion for a Stay

Slightly more than one year after the *Bonneville* decision, the broadcasters moved for a stay of the Copyright Office's final ruling to the extent that "its application would otherwise require thousands of radio stations across the nation to pay retrospective royalties covering a four-year period on October 20, 2002 and thereafter to make royalty payments on a monthly basis for broadcasting transmissions."[52] The

Copyright Office applied four factors for determining whether a stay is warranted.[53]

First, the Copyright Office determined that the broadcasters had not demonstrated that they had more than a "mere possibility" of success.[54] It relied upon the fact that the *Bonneville* court had upheld its final ruling.[55] Next, in considering whether the broadcasters would suffer irreparable harm if the stay were denied, the Office stated that the broadcasters had failed to demonstrate that, in the absence of a stay, any radio station would be unable to pay its bills or would have to significantly change its operations to fund the royalty payments.[56] The Office found that prudence would dictate that the broadcasters set aside enough funds to pay the royalties in the event that they were unsuccessful on appeal.[57] The Office also found that the broadcasters had an adequate remedy at law in that if they were to prevail on appeal, they could request the voluntary refund of royalty payments, and where it appeared as if they were not to be reimbursed, they could file a lawsuit for those payments.[58] Finally, granting a stay would not eliminate the broadcasters' obligation under the law to render royalty payments. In fact, if they were to lose on appeal, they would be subject to infringement lawsuits up to the time of the Third Circuit's decision.[59]

The Copyright Office further concluded that a stay would be injurious to the copyright owners and performers in that it would postpone their receipt of lawful royalty payments.[60] It noted that the delay would be unjustified, since the broadcasters had failed to demonstrate a likelihood of success on the merits or irreparable harm.[61] Finally, the Copyright Office determined that the public interest in administration of statutory licenses outweighed any countervailing public interest proposed by the broadcasters.[62] Therefore, the Copyright Office denied the broadcasters' motion for a stay.

D. Third Circuit Opinion

On October 17, 2003, the Court of Appeals for the Third Circuit affirmed the district court judgment deferring to the Copyright Office's determination that simultaneous Internet streaming of analog radio broadcasts is not an exempt transmission under section 114(d)(1)(A).[63] The court stated that it did not need to accord deference under *Chevron,* since it found the Copyright Office's arguments in support of its position to be persuasive under the less deferential *Skidmore* standard.[64] Furthermore, the court noted that the central issue was whether a "broadcast station," as defined in section 114(j)(3), refers to the physical broadcasting facilities, including the method of transmission, or to the broadcaster as a business entity that operates broadcasting facilities.[65] The court found that the statutory language "terrestrial broadcast station licensed as such by the [FCC]" referred unequivocally to the physical broadcasting facilities, since the term "terrestrial" implies facilities, not entities,[66] and it reasoned that "licensed as such" referred to the physical radio station, as opposed to the entity that operates the station, which is the licensee.[67] The court added that the term "broadcast transmission" under section 114(d)(1)(A) would be an analog transmission by a broadcast facility operated by an FCC-licensed entity, and, therefore, that streaming would not be included within the ambit of its meaning.[68] As a result, the court held that since streaming does not satisfy the definition of a "nonsubscription broadcast transmission," it failed to qualify for an exemption from the digital audio transmission performance copyright of section 106(6).[69]

The court went on to analyze the statute in a manner akin to that of the district court and affirmed the district court's judgment.

IV. Repercussions of the Final Ruling

Radio stations broadcast popular music to entice a listener's attention to the airtime that they sell to advertisers. It is no surprise that music plays an instrumental role for many businesses. Indeed, it has been a long standing policy of Congress to strike a careful balance between the interests of the recording industry and those of the broadcasters so as to avoid a windfall for the former.[70] Yet the Copyright Office's final rulemaking appears to have been a 180-degree reversal of that policy. By determining that radio stations must pay royalties for streaming their broadcasts over the Internet, the Copyright Office implied that the aforementioned balance is no longer an instrumental part of determining fair legislation.

The law should not be interpreted to discourage radio stations from adapting to new Internet technology or from using such technology to do essentially the same thing that they presently are exempt from doing—broadcasting music to the general public. In fact, Congress has expressed an aversion to hampering new technologies[71] and to "impos[ing] new and unreasonable burdens"[72] on broadcasters. This rulemaking regarding simultaneous streaming (and its affirmation by the district court and Third Circuit) flies in the face of Congress' apparent intent with regard to new technology.[73]

The Copyright Office final ruling has and will continue to force many terrestrial broadcasters to forsake Internet streaming of their over-the-air music programming. Indeed, royalty fees for such streaming may climb into the tens of millions of dollars. The fact that thousands of radio stations are required to pay retrospective royalties of .07 cents per performance[74] for a four-year period and thereafter make such royalty payments on a monthly basis is evidence that there will be a substantial economic burden on most, if not all, of these stations. The burden of these additional royalty fees will surely be too great for many broadcast companies to justify the expense of streaming.[75]

V. Legal and Economic Arguments

It is this author's view that radio stations should be immunized from royalties for radio broadcasts that they simultaneously stream over the Internet. However, in order to fully comprehend this controversial issue, one must delve deeper than the financial burdens that will be imposed upon those radio stations that stream their broadcasts.

Arguably, the Copyright Office's final ruling is at odds with the plain language of the statute. Inclusion of the term "nonsubscription" in section 114(d)(1)(A)[76] indicates that the exemption was not intended to be limited to over-the-air transmissions. Rather, it is broad enough to cover digital streaming transmissions. In fact, the term "subscription" transmissions does not apply to over-the-air broadcast transmissions or to digital streaming transmissions, which are not limited to certain recipients and are not subject to a fee.[77] Of course, if the radio stations offered only their streaming transmissions through a subscription service, then they would not be exempt.[78]

A further textual argument is that the term "terrestrial" in section 114(j)(3)[79] limits the definition of "broadcast transmission" to "over-the-air" transmissions. Congress heard testimony to the effect that "free over-the-air broadcasts are available without subscription, do not rely on interactive delivery, and provide a mix of entertainment programming and other public interest activities to local communities to fulfill a condition of the broadcasters' license."[80] However, according to section 101 of the Copyright Act, "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."[81] It has been widely recognized that forms of transmission may include over-the-air broadcast, satellite or cable telecasts, and modems or other sorts of telephone communications.[82] The Internet, which is the forum for digital streaming, allows for transmission.[83] The term "terrestrial" does not expressly or impliedly suggest that all transmissions, other than over-the-air transmissions, are subject to royalty payments. In fact, to the extent an ordinary radio station broadcasts programs that include sound recording performances, that activity is exempt from liability, even if such sound recordings are broadcast entirely in digital format.[84] The reason is that so long as the broadcast is tailored for the public at large and is non-interactive, those sound recordings have a nonsubscription character.[85] Consequently, radio stations that simultaneously stream their broadcasts via the Internet should be exempt from royalties.

A further assertion is that the digital nature of the streaming transmission removes it from the "nonsubcription broadcast transmission" exemption. It is contended these digital streaming transmissions arguably are wholly different from the "terrestrial" analog broadcast transmissions for two primary reasons. First, local radio stations are "terrestrial" because they are "grounded" by their broadcast antennae and, thus, are geographically limited.[86] Digital streaming transmissions, on the other hand, are made by computer transmitters that send their signals globally.[87] Under this view, the fact that the radio broadcasters own both the over-the-air broadcasting antennas as well as the digital streaming transmission is deemed irrelevant in interpreting the term "terrestrial."[88] Second, the sound quality of digital streaming transmissions purportedly is sharper and more distinct than that of analog transmissions.[89] The argument is that Congress did not intend to exempt digital transmissions, since listeners benefit more from the streaming than from the over-the-air broadcast transmission.[90]

While these contentions are plausible, they do not compel finding radio broadcasters liable for royalty payments for streaming. Although analog transmissions do reach a smaller potential audience than digital transmissions, that difference alone should not be dispositive in determining which transmissions are exempt from royalties. Congress decided to exempt all "nonsubscription broadcast transmissions."[91] In doing so, the radio stations that broadcast their transmissions through the airwaves, while limited to a 150-mile radius of the transmitter, were clearly exempt for such transmissions.[92] However, Congress never specified that the transmission had to be analog and not digital. In fact, it has been noted that a radio station's digital broadcast transmission of a sound recording is exempt.[93] It could not have been the intent of Congress to exempt only an over-the-air broadcast transmission and to require the radio stations to pay royalties for their simultaneous digital transmissions when both plainly are "nonsubscription broadcasts."

Moreover, Congress specifically provided that the 150-mile limitation is inapplicable when a nonsubscription broadcast that is transmitted by an FCC-licensed radio station is retransmitted on a nonsubscription basis.[94] By exempting "nonsubscription broadcast transmission[s]," Congress implied that any nonsubscription-based broadcast is exempt so long as it fits within that above-stated provision. Pursuant to the definition of transmission[95] and retransmission,[96] it could be argued that digital streaming constitutes either a transmission, since the music is received beyond the place from which it was sent, or a retransmission, due to its simultaneous transmission of the "over-the-air" transmission. Thus, a simultaneous stream onto the Web of a broadcast radio signal could be construed as a "nonsubscription broadcast transmission" that is exempt under section 114(d)(1), because it is (1) a simultaneous retransmission of (2) an original broadcast signal that is (3) made by a terrestrial FCC-licensed radio station. The statute's caveat that nothing in the definition of a transmission shall be construed to exempt a transmission that "fails to satisfy a separate element required to qualify for an exemption under § 114(d)(1)" is irrelevant since all qualifying elements, *i.e.*, that the transmission be both nonsubscription and made by an FCC-licensed broadcaster, are satisfied when the broadcaster streams its own signal onto its own Web site. In other words, reliance on the fact that a "terrestrial" radio station broadcasts solely over-the-air and not via the Internet is misguided, since the retransmission of a nonsubscription-based radio station broadcast is exempt.[97]

Alternatively, the potential for digital transmissions to emit a sharper and more distinct sound quality than over-the-air transmissions does not provide a firm basis for contending that those digital transmissions should not be exempt from royalties. While streaming broadcasts over the Internet is a digital function, the listeners still must receive those streams in order to benefit from them. Streaming involves an intricate process by which there are various opportunities for error. First, the music is transmitted, in relatively small pieces of data, to the listener's computer, where a software multimedia player converts those pieces of data into sound that is played by way of the computer's speakers.[98] This process is commonly known as "buffering."[99] As a result of this process, no permanent copy of the digital transmission is saved on the listener's computer.[100] By consuming each individual piece of data, streaming technology makes it extremely difficult to copy the data.[101]

Second, in order to gain access to digital streaming, the listener must be connected to the Internet.[102] The sound quality of a streaming broadcast is highly variable, as it is entirely dependent on the length of the bandwidth. The slower the Internet connection, as a result of a shorter bandwidth, the greater the potential that the streamed music will be interrupted.[103] Once the connection becomes interrupted, the incoming stream of music is terminated. Therefore, in many cases, the sound quality of digitally streamed music is actually lower than that of a compact disc or even an analog radio broadcast.[104]

This process can be frustrating in that a listener may not be able to receive even one song in its entirety. Even with advancing technology[105] and development of faster modems and network connections, there is no guarantee that the music will be properly streamed. In fact, it strains credulity to suggest that listeners will benefit more from the sound quality of digital streaming transmissions, which could be interrupted at any moment, than from over-the-air transmissions.

Furthermore, record producers and recording artists have more to gain from the radio broadcasters' simultaneous streaming transmissions. Unlike downloading,[106] which copies the music onto a listener's computer, digital streaming solely affords the listener the opportunity to hear music that is simultaneously being played on an area radio station. Thus, streaming does not produce any greater potential for sound recording piracy[107] than does an analog radio broadcast. Although Internet streaming is substantially similar to a radio broadcast, there is no simple way to record it digitally. A digital stream potentially can be copied by using a tape recorder,[108] but so can a song copied off the radio.[109]

Another benefit of digital streaming to record producers and recording artists is that it permits Internet users who live in areas with poor reception to listen to digital transmissions from radio stations situated outside their region. By doing so, the listeners may be exposed to music that they otherwise would have not had an opportunity to hear. If radio broadcasts provide a financial benefit to the recording industry on a local level, those benefits are magnified by the even larger public exposure that those sound recordings will receive from streaming transmissions that reach a global or national audience. With the foregoing in mind, the long standing policy of Congress to strike a careful balance between the interests of the recording industry and the interests of the broadcasters[110] only will be calibrated properly if the radio broadcasters are exempt from royalties for streaming; otherwise there will be a huge economic windfall for the recording industry.

In addition, the legislative history suggests that Congress intended to exempt, under section 114(d)(1)(A), AM/FM streaming from the public performance right under section 106(6).[111] Congress explicitly recognized that many record companies and recording artists have benefited considerably from both noncommercial and advertiser-supported radio broadcasts.[112] In fact, Congress emphasized that there should be nothing done "to change or jeopardize the mutually beneficial economic relationship between the recording and traditional broadcasting industries."[113] Congress was well aware of foreseeable technological advances when it enacted the DPRA and DMCA. Indeed, the intended purpose of the legislation was to provide the owners of sound recording copyrights the ability to control the distribution of their product.[114] Still, Congress did not intend to disrupt the existing relationship between the record industry and the broadcasters.[115] Moreover, as stated above, one of the primary reasons for this legislation was Congress' overruling concern with Internet piracy.[116] However, the present technological inability to achieve high-quality copying of digital streaming[117] undermines the argument that refusing to exempt streaming will prevent piracy. Rather, the more feasible reason for Congress' failure to explicitly exempt digital streaming is that digital streaming, in its scope and form,[118] does not present even a threat of Internet piracy or loss of revenue to the performers.[119]

Arguably, section 114(d)(1)(A) could be interpreted as ambiguous regarding Congress' intent to exempt digital streaming from the section 106 public performance right. The district court in *Bonneville* found it unlikely that Congress intended to exempt FCC-licensed entities from the public performance right.[120] The court interpreted the phrase "licensed as such by the [FCC]" within the definition of a "broadcast transmission"[121] to suggest not only that a broadcast station is licensed by the FCC, but also that the station engages in those activities which are licensed by the FCC.[122] This argument is specious.

The pivotal element in the definition is the designation of the nature of the entity producing the transmission, not the method of transmission.[123] To interpret the statute as exempting only those transmissions that are made by FCC-licensed broadcasters under the terms of their licenses, such as over-the-air transmissions, would circumvent the purpose of the exemption. Although AM/FM digital streaming was not explicitly exempted from royalties, the nonsubscription and non-interactive nature of the broadcast transmissions pose a minimal threat to record sales—the true basis for exempting certain transmissions. Since radio broadcasters are exempt because they are FCC-licensed to broadcast their signals over-the-air, they should be equally exempt to digitally stream the same broadcast over the Internet. The reason for this is that the FCC-licensed broadcaster that is streaming its broadcast over the Internet is the same FCC-licensed broadcaster that is broadcasting its signal over-the-air. The only difference is the method by which the transmission occurs. However, the method is irrelevant, since both types of transmissions produce the same nonsubscription and non-interactive result—a result that is consistent with the history and purpose of copyright law.[124]

VI. General Policy Considerations

General policy considerations can play a vital role in furnishing and justifying an outcome to this controversial issue. It is imperative to bear in mind Congress' goal of striking a careful balance between the interests of the broadcasters and those of the recording industry in order to avoid granting a large financial advantage to the latter. In this regard, digitally streamed transmissions of the same over-the-air radio broadcast transmissions afford the recording industry a huge financial benefit. The global scope of digital transmissions[125] yields to the recording industry greater public exposure of its copyrighted works, which certainly can be viewed as a financial benefit. Permitting music to be transmitted over the Internet, by way of point-to-point communication,[126] provides a significant potential to boost record sales. This point is quite important, since Congress has been deeply concerned with avoiding activities that could compromise the copyright owners' potential to earn revenue from their copyrighted works.

Moreover, the policy underlying copyright law deems compensation to the copyright owner to be secondary to the public benefit.[127] Accordingly, AM/FM broadcasters should be exempt from royalty liability because they comply with FCC content requirements that promote the public interest and benefit the local community.[128] This is true with respect to AM/FM digital broadcast transmissions via the Internet, as the digital nature of the transmission does not reduce the listener's incentive to purchase music. Instead, the economics of digital streaming transmissions are virtually identical to those of the over-the-air broadcast transmissions in that both methods serve to promote the copyrighted music to listeners. Until digital streaming transmissions by radio stations are shown to constitute an actual threat to the sale of recorded music, the exemption for over-the-air broadcast transmissions should apply equally to digital streaming transmissions. Otherwise, the absence of an exemption will unfairly disadvantage AM/FM radio stations.

VII. Conclusion

Recently, the issue of whether AM/FM radio broadcasters, who are exempt from royalty liability when they broadcast their programming over-the-air, also are exempt when the same programming is simultaneously streamed over the Internet was adjudicated in court for the first time. The Copyright Office's final rulemaking, which determined that streaming is not exempt, played a significant role in this adjudication in that its decision exposed broadcasters to royalties for such streaming. However, the final rulemaking, and its vindication in court, is not persuasive. In this author's view, the simultaneous digital streaming of radio broadcasts falls squarely within the section 114(d)(1)(A) exemption from the section 106 public performance right. While Congress could have made such an exemption explicit, it may be that since Congress did not view digital streaming as a threat to record sales, it saw no reason to do so.

Digital streaming transmissions do little more than provide a radio station's listeners the option of tuning in on the Internet. Much of the value of Internet transmissions derives from the ability to retain listener loyalty, both from within the local community and from out-of-town listeners. Such loyalty is a real benefit to the record industry. In fact, the increased playtime and expanded geographical range, the inability of listeners to create a higher-quality copy of a streamed sound recording, and the far-reaching public benefit provide compelling reasons why digital streaming should be exempt from royalties.

Endnotes

1. *See generally Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).
2. For an expansive look at streaming and its digital make-up, see *infra* note 24 and its accompanying text and notes 96–103 and accompanying text.
3. *See Bonneville Int'l Corp. v. Peters*, 153 F. Supp. 2d 763, 764 (E.D. Pa. 2001).
4. *See* Public Performance of Sound Recordings, 65 Fed. Reg. 77292 (Dec. 11, 2000) (hereinafter "Final Rule").
5. *See Bonneville*, 153 F. Supp. 2d at 784.
6. *See infra* notes 18 and 36 and accompanying text.
7. *See infra* note 67 and accompanying text.
8. During the digital age, which began approximately in 1990, digital audio services began transmitting sound recordings. *See Recording Indus. Ass'n of Am. v. Librarian of Cong.*, 176 F.3d 528, 530 (D.C. Cir. 1999) ("RIAA"). Since then, digital technology has rapidly evolved into a large industry, one that has provoked much copyright legislation and adjudication. *See, e.g., A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).
9. *See Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) ("The primary objective in conferring the copyright monopoly is the general benefit received by the public from the work of authors. When the literal terms of the Copyright Act are rendered ambiguous, it must be construed in light of the primary objectives of conferring the copyright monopoly.").
10. *See* 17 U.S.C. § 106(4).
11. *See* Samuel Fifer & Gregory R. Naron, *Changing Horses in Mid-Stream: The Copyright Office's New Rule Makes Broadcasters Pay for "Streaming" their Signals Over the Internet*, 3 Vand. J. Ent. L. & Prac. 182, 183 (2001).
12. *See id.*
13. *See* Pub. L. No. 92-140, 85 Stat. 391 (1971).
14. *See id.*
15. *See* 17 U.S.C. § 102.
16. *See RIAA v. Librarian of Cong.*, 176 F.3d at 530.
17. These digital audio services transmitted specific recordings directly to the subscribers' homes, generally without commercial interruption.
18. *See* H.R. Rep. No. 104-274 (1995).
19. *See* Pub. L. No. 104-39 (1995).
20. *See* 17 U.S.C. § 114(j)(5) (Supp. 1995). A digital audio transmission is a "digital transmission, as defined section 101, that embodies the transmission of a sound recording. This term does not include the transmission of any audiovisual work." *See also* 17 U.S.C. § 101 (1995) (a "digital transmission is a transmission in whole or in part in a digital or other non-analogous format").
21. *See* 17 U.S.C. § 114(j)(14) (Supp. 1995) ("A 'subscription ' transmission is a transmission that is controlled and limited to particular recipients, and for which consideration is required to be paid or otherwise given by or on behalf of the recipient to receive the transmission or a package of transmissions including the transmission."); *Cf.* 17 U.S.C. § 114(j)(9) ("A 'nonsubscription' transmission is any transmission that is not a subscription transmission."). *See also Radio Stations Must Pay Royalties for Webcasts, Judge Rules*, Intell. Prop. Litig. Rep., Sept. 18, 2001, at 7 (stating that a nonsubscription transmission is one that is broadcast for free to all potential listeners and is not limited to specific recipients who pay for the service).
22. *See* S. Rep. No. 104-128, at 15 (1995) (stating that the legislation was preoccupied with how interactive and subscription services could "adversely affect sales of sound recordings and erode copyright owners' ability to control and be paid for use of their work").
23. *See id.* at 15.
24. *See Bonneville*, 153 F. Supp. 2d at 764 (stating that "streaming involves the digital transmission of programming over the internet" and that "'AM/FM streaming' refers to the practice of transmitting broadcasts over the Internet in digital format by FCC-licensed AM or FM broadcasters"); *Cf.* William Sloan Coats, et al., *Legal and Business Issues in the Digital Distribution of Music: Streaming into the Future: Music and Video Online*, 20 Loy. L.A. Ent. L. Rev. 285, 288–89 (2000). One form of technology offered via the Internet for disseminating audio is "'streaming media,' which is the live distribution of music or video online in which no permanent copy is created on the downloader's system." In fact, the quality offered through this process is often lower than the quality that is offered through a compact disc or even through analog radio. *See* Bruce H. Phillips & Carl R. Moore, *Digital Performance Royalties: Should Radio Pay?: Digital Broadcasting: The Cost of Copyright*, 3 Vand. J. Ent. L. & Prac. 168, 174 (2001). Streaming is effectuated by breaking audio signals into smaller pieces, which are then transmitted over the Internet and, through a process known as "buffering," are arranged and decoded. This all occurs without being saved (except temporarily) in the computer's RAM.
25. *See* Fifer, *supra* note 11, at 184. In an era where digital technological advances are the norm, the difference between downloading and streaming is of utmost importance. A downloaded copy of a digital audio file, which could be created in an instant, is virtually indistinguishable from the original copyrighted work. By contrast, streaming merely permits the listener the opportunity to access digital audio as it is simultaneously being offered from an outside source. *See id*. Thus, the retention and indefinite access of the copyrighted work facilitated through downloading (commonly known as peer-to-peer file transfer) was the primary concern for this legisla-

tion. *See generally A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

26. *See* S. Rep. No. 104-128, at 15.

27. *See* 17 U.S.C. § 114(d)(1)(A) (Supp. 1995). Within this final category, Congress specifically exempted "nonsubscription broadcast transmission."

28. *See* H.R. Rep. No. 104-274, at 14 (1995).

29. *See* H.R. Rep. No. 105-796, at 80 (1998).

30. *See* H.R. Rep. No. 105-551, at 25 (1998). Section 114(d)(1)(A) now reads as follows:

    (d) Limitations on Exclusive right.- Notwithstanding the provisions of section 106 (6)-

    (1) Exempt transmissions and retransmissions.-The performance of a sound recording publicly by means of a digital audio transmission, other than as part of an interactive service, is not an infringement of section 106(6) if the performance is part of-

    (A) a nonsubscription broadcast transmission.

    See 17 U.S.C. § 114(d)(1)(A) (Supp. 1998). *See also* H.R. Rep. No. 105-796, at 80 (1998). The Committee Report states that section 114(d)(1)(A) is amended to delete two exemptions that either were the cause of confusion as to the application of the DPRA to certain nonsubscription services or overlapped with other exemptions.

31. *See* 17 U.S.C. § 114(d)(1) (Supp. 2001).

32. *See* 2-8 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 8.22 (2002). *See also* 17 U.S.C. § 114(j)(7) ("An 'interactive service' is one that enables a member of the public to receive a transmission of a program specifically created for the recipient, or on request, a transmission of a particular sound recording, whether or not as part of a program, which is selected by or on behalf of the recipient. The ability of individuals to request that particular sound recordings be performed for reception by the public at large, or in the case of a subscription service, by all subscribers of the service, does not make the service interactive, if the programming on each channel of the service does not substantially consist of sound recordings that are performed within 1 hour of the request or at a time designated by either the transmitting entity or the individual making such request. If an entity offers both interactive and noninteractive (either concurrently or at different times), the noninteractive component shall not be treated as part of an interactive service.").

33. *See Bonneville*, 153 F. Supp. 2d at 779 (notes that the terms "streaming" and "webcasting" are interchangeable in that they refer to the same process of Internet delivery).

34. *See* Pub. L. No. 105-304 (1998).

35. *Bonneville*, 153 F. Supp. 2d at 778.

36. *See* Coats, *supra* note 24, at 285 (stating that the Internet's impact on the music industry is important since the potential to deprive record labels of maximum revenue, through technology such as streaming and downloading, has been rising consistently).

37. *See Bonneville*, 153 F. Supp. 2d at 778.

38. *See* 17 U.S.C. § 114(d)(1)(B).

39. *See id.*

40. *See id.* at 770.

41. *See supra* text accompanying notes 39–43.

42. *See Bonneville*, 153 F. Supp. 2d at 770.

43. *See supra* note 4.

44. *See* Final Rule, *supra* note 4, at 77292.

45. 17 U.S.C. § 112.

46. *See* Final Rule, *supra* note 4, at 77292.

47. *See id.* at 77301.

48. *See id.*

49. *See* 17 U.S.C. § 504(c)(2). This amount is the maximum allowed under the statute, and is granted only upon a showing of a willful infringement and based on the discretion of the court.

50. *See id.* at 765.

51. 153 F. Supp. 2d 763 (E.D. Pa. 2001).

52. *See In re Public Performance of Sound Recordings: Definition of a Service*, No. RM 2000-3C (Oct. 10, 2002), *at* http://www.copyright.gov/carp/stay-amfm.pdf.

53. *See id.* The four factors are (1) the likelihood that the party seeking the stay will prevail on the merits of the appeal; (2) the likelihood that the moving party will be irreparably harmed absent a stay; (3) the prospect that others will be harmed if the court grants the stay; and (4) the public interest in granting the stay.

54. *See id.*

55. *See id.*

56. *See id.*

57. *See id.* The final ruling was issued two years prior to this motion. The broadcasters were well aware of the distinct probability that they would have to pay royalties.

58. *See id.*

59. *See id.*

60. *See id.*

61. *See id.*

62. *See id.*

63. *See Bonneville Int'l Corp. v. Peters*, 347 F.3d 485, 500 (3d Cir. 2003).

64. *See id*. at 490.

65. *See id*. at 494.

66. *See id*. at 493.

67. *See id*. at 495.

68. *See id*.

69. *See id*.

70. *See* Fifer, *supra* note 11, at 183.

71. S. Rep. No. 104-128, at 15–16 (1995).

72. *Id.*

73. *See* David Nimmer, *Ignoring the Public, Part I: On the Absurd Complexity of the Digital Audio Transmission Right*, 7 UCLA Ent. L. Rev. 189, 189 n.12 (2000) (the balance of interests, reflecting the statutory and regulatory requirements imposed on broadcasters against the potential impact of new technologies, guided Congress' decision to immunize broadcasters from the newly created technologies).

74. *See* http://www.copyright.gov/carp/webcasting_rates_final.html. This translates into 70 cents per song for every 1,000 listeners. On October 20, 2002, a lump sum royalty payment spanning back to 1998 was due from all stations that had digitally streamed their broadcast.

75. In addition to terrestrial broadcast companies, more than 200 Internet-based radio stations have shut down their streams due to this retroactive royalty payment. *See* Andrea E. Bates, *Webcasters face retroactive royalties in October*, Nat'l L.J., Sept. 23, 2002, at B19. One counteractive step was taken by some

(Continued on page 30)


2004 Annu
January
New York Mar
RAKOFF
COTE
NYSBA


al Meeting
27, 2004
rriott Marquis
HUGHES
RAKOFF
COTE
EXIT

(Continued from page 27)

federal lawmakers when a bill entitled the Internet Radio Fairness Act was proposed. The bill was proposed to protect those small Internet-based radio stations that raise less than six million dollars per year in revenue. *See* Internet Radio Fairness Act, H.R. 5285, 107th Cong. (2002). *See* Andrea E. Bates, *Webcasters face retroactive royalties in October*, Nat'l L.J., Sept. 23, 2002, at B19.

76. *See* 17 U.S.C. § 114(d)(1)(A).

77. *See* Nimmer, *supra* note 73, at 210.

78. Commentators, such as Professor Nimmer, take the position that as of 1995, radio and television stations are exempt not only because of their analog broadcast format, but because of their potential to go digital in the future. Also, those stations will continue to be exempt, unless and until they enter the interactive or subscription marketplace. *See* 2 David Nimmer, Nimmer on Copyright § 8.21 n.49.

79. *See* 17 U.S.C. § 114(j)(3) ("a 'broadcast' transmission is a transmission made by a terrestrial broadcast station licensed as such by the Federal Communications Commission").

80. H.R. Rep. No. 104-274, at 13 (1995).

81. 17 U.S.C. § 101 (2000).

82. *See* Nimmer, *supra* note 73, at 196.

83. *See id.*

84. *See* 2-8 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 8.22 (2002).

85. *See id.*

86. *See Bonneville*, 153 F. Supp. 2d at 780.

87. *See id. See also* Joshua P. Binder, *Current Developments of Public Performance Rights for Sound Recordings Transmitted Online: You Push Play, But Who Gets Paid?*, 22 Loy. L.A. Ent. L. Rev. 1, 16 (2001) (stating that the difference between traditional analog radio transmissions and Internet streaming is monumental, especially since wireless technology is becoming more prevalent).

88. *See Bonneville*, 153 F. Supp. 2d at 780 ("the fact that the same entity might own the antenna executing the over-the-air broadcast as well as the computer streaming the broadcast over the Internet would not render the webcast *performed* by a terrestrial station").

89. *See id.* at 778.

90. *See id.* at 779.

91. *See* 17 U.S.C. § 114(d)(1)(A).

92. *See* 17 U.S.C. § 114(d)(1)(B).

93. *See* 2-8 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 8.22 (2002).

94. *See* 17 U.S.C. § 114(d)(1)(B)(I). It may be important to recognize that if digital streaming is considered a retransmission, the argument that the transmission must be within a 150-mile radius, as is imposed upon analog radio broadcast transmissions, will become moot.

95. *See* 17 U.S.C. § 114(j)(15). ("A 'transmission' is either an initial transmission or a *retransmission.*") (emphasis added).

96. *See* 17 U.S.C. § 114(j)(12). ("A 'retransmission' is a further transmission of an initial transmission, and includes any further retransmission of the same transmission . . . a transmission qualifies as a 'retransmission' only if it is *simultaneous* with the initial transmission. Nothing in this definition shall be construed to exempt a transmission that fails to satisfy a separate element required to qualify for an exemption under section 114(d)(1).") (emphasis added). *See also* Binder, *supra* note 87, at 18 (noting that a variety of analog radio broadcasting stations also provide a stream of webcasted music by retransmitting their radio broadcasts simultaneously over the Internet).

97. *See, e.g.,* Fifer, *supra* note 11, at 188. A radio station that simultaneously streams its broadcast programming does not need to procure its own signal over-the-air in order to retransmit it over the Internet. Rather, the digital streaming is merely a simultaneous adjunct of the traditional broadcast.

98. Examples of these common media players are Winamp, RealPlayer, or Windows Media Player. *See* Binder, *supra* note 87, at 16–17. *See also* Debra Beller, *How Internet Radio Works*, *at* http://www.howstuffworks.com/internet-radio.htm\t "_blank (2002) (stating that streaming audio is a continuous broadcast that works through three software packages: the encoder, the server and the player. The encoder converts audio content into a streaming format, the server makes it available over the Internet and the player retrieves the content. For a live broadcast, the encoder and streamer work together in real time. An audio feed runs to the sound card of a computer running the encoder software at the broadcast location and the stream is uploaded to the streaming server. Since that requires a large amount of computing resources, the streaming server must be a dedicated server).

99. *See* Phillips, *supra* note 24, at 174; *see also* Brian Dipert, *Now Hear This*, EDN Mag., Feb. 3, 2000, at 50 ("Streaming applications place greater than normal demands on the decoder, which must now also buffer the incoming information and gracefully degrade its output quality if it doesn't receive portions of the data in a timely fashion").

100. *See supra* note 24.

101. *See* Binder, *supra* note 87, at 17.

102. *See id.*

103. *See id.*; *see also* Dipert, *supra* note 99, at 50 (stating that many of today's Internet users have 56-kbps [kilobytes per second] analog modems, often with a usable bandwidth that barely exceeds 40 kbps. Single-channel integrated-services-digital-network bandwidth is only 64 kbps and cable-modem bandwidth depends on the number of users sharing the same head end and on the bandwidth of the link between the head end and the Internet). *See also* http://service.real.com/help/library/guides/production8/htmfiles/realsys.htm (stating that streaming presentations should never consume all of the audience's connection bandwidth. There must always be bandwidth for network overhead, error correction, resending lost data, and so on. Otherwise, the streaming presentations may require frequent rebuffering.).

104. *See* Binder, *supra* note 87, at 17.

105. Similar to the inception of radio becoming available in mobile situations in 1954, Internet radio is in much the same place. Until the twenty-first century, the only way to procure digitally streamed radio broadcasts was through the PC. However, since wireless technology is becoming more prevalent, digital streaming will soon be available via Internet broadcasts to car radios, PDAs, and cellular phones. *See* Debra Beller, *How Internet Radio Works*, *at* http://www.howstuffworks.com/internet-radio.htm" \t "_blank (2002).

106. *See supra* note 25.

107. Both the DPRA and DMCA are proof that Congress is greatly concerned with the potential of Internet piracy and the resulting loss of revenue owed to recording artists and record companies. *See supra* text accompanying note 36.

108. *See* Binder, *supra* note 87, at 17.

109. This point distinguishes the *Bonneville* court's vexatious argument that one of the main reasons that AM/FM radio broadcasters should be liable for royalties is because the digital nature of the transmissions significantly enhances the

ability to create high-quality copies from the transmissions. *See Bonneville*, 153 F. Supp. 2d at 778.

110. *See supra* note 70.

111. The House Managers' Report for the 1998 DMCA refutes the contention that Congress could not have possibly intended to exempt anything other than over-the-air broadcasts in the DPRA since Congress had not even considered Internet transmissions. It stated that when the DPRA was enacted, Internet music transmissions were not the focus of Congress' effort since very little was known about how nonsubscription music services would evolve digitally, either on the Internet or in some other digital source. Furthermore, when Congress amended section 114 in 1998, the definition of "nonsubscription broadcast transmission" remained unchanged. *See* Final Rule, *supra* note 4, 77296.

112. *See* S. Rep. No. 104-128, at 16 (1995).

113. *Id.* Since Congress historically has been sympathetic to broadcasters' arguments that radio broadcasts have been beneficial to the recording industry, it is logical to assume that the same benefit redounds to the recording industry when AM/FM broadcasters translate their signal to a new medium. *See* Fifer, *supra* note 11, at 188–89.

114. *See* H.R. Rep. No. 104-274 (1995).

115. Final Rule, *supra* note 4, at 77295.

116. *See supra* text accompanying note 36.

117. No permanent copy of the digital transmission is saved on the computer's RAM. This makes it extremely difficult to retain a digital copy of the streamed broadcast.

118. Digital transmissions are global in scope and digital in form. *See Bonneville*, 153 F. Supp. 2d at 779.

119. While there are numerous citations in the legislative history that evince Congress' intent to protect traditional over-the-air broadcast transmissions from royalties, the expressions of legislative intent indicate that it was not only the over-the-air broadcasts that were immunized. For instance, the Senate Report indicated that the "broadcasting and *related transmissions*," which posed no threat to the recorded music market, were to be exempted. *See* S. Rep. No. 104-128, at 15 (1995) (emphasis added).

120. *See Bonneville*, 153 F. Supp. 2d at 776.

121. *See* 17 U.S.C. § 114(j)(3) (1998) ("A 'broadcast' transmission is a transmission made by a terrestrial broadcast station licensed as such by the Federal Communications Commission").

122. *See Bonneville*, 153 F. Supp. 2d at 776.

123. The opposing argument is that "licensed by the FCC" meant that the FCC would have the authority to regulate and license the activity, such as over-the-air broadcasts. Since digital streaming is global, it is beyond the scope of "terrestrial broadcast station" and beyond the boundaries of FCC authority, thus putting it out of reach of the Copyright Act exemption. *See Bonneville*, 153 F. Supp. 2d at 768–70. However, as it was stated earlier, the term "terrestrial" does not suggest that all transmissions, other than over-the-air, are subject to royalties. *See supra* text accompanying notes 87–89.

124. *See supra* text accompanying note 70.

125. The ability to greatly expand the global scope of AM/FM broadcasts via digital streaming is consistent with the stated goal of preserving the existing relationship between the broadcast industry and the recording industry. *See, e.g.*, *supra* note 116 and accompanying text.

126. *See Bonneville*, 153 F. Supp. 2d at 775 (stating that streaming involves point-to-point communication in that a "signal is transmitted over closed transmission lines to the specified addresses of individual computers in response to their search out and 'hitting' on the transmitter's website").

127. *See Aiken*, 422 U.S. at 156. ("The primary objective in conferring the copyright monopoly is the general benefit received by the public from the work of authors. When the literal terms of the Copyright Act are rendered ambiguous, it must be construed in light of the primary objectives of conferring the copyright monopoly").

128. *See Bonneville*, 153 F. Supp. 2d at 783.

Christopher L. Barbaruolo is a third-year student at Hofstra Law School. A version of this article won First Prize in the Section's Annual Law Student Writing Contest.

REQUEST FOR ARTICLES

If you have written an article, or have an idea for one, please contact *Bright Ideas* Editor

Jonathan Bloom, Esq.
Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Phone: (212) 310-8775
Fax: (212) 310-8007
E-mail: jonathan.bloom@weil.com

Articles should be submitted on a 3-1/2" floppy disk, preferably in Microsoft Word or WordPerfect, along with a printed original and biographical information.

Market Definition in Intellectual Property Law: Should Intellectual Property Courts Use an Antitrust Approach to Market Definition?

By Anna Kingsbury

I. Introduction

This article compares judicial approaches to market concepts and market definition in intellectual property and antitrust cases. Antitrust law uses a relatively developed economic approach to market definition. This approach generally is not used by courts in defining markets in intellectual property law cases, although it is used in applying antitrust law to disputes involving intellectual property. In this article, I explore why this difference exists and whether antitrust analysis could usefully be applied to intellectual property law.

The article first summarizes the antitrust approach to market definition and then considers judicial approaches to market definition in three areas of intellectual property law: trademark, patent, and copyright. Rationales for the differences in market definition between antitrust and intellectual property law are considered. I conclude that the concept of market is used for a variety of purposes in intellectual property law and that it carries different meanings in different contexts. For some purposes, particularly in trademark law and also in the patent misuse context, antitrust market definition could usefully be applied to produce a more empirically justified result without changing the underlying rationales of the existing law. For other purposes, such as in the patent damages and copyright fair use contexts, importing antitrust principles would involve a significant change in existing law and policy, having the effect of reducing the level of protection to the rightholder. In relation to copyright fair use, I argue that this is a potentially desirable change that would permit a broader interpretation of fair use doctrine. In patent damages cases, use of antitrust market definition likely would reduce damage awards in cases where the patent claims do not define the market in an antitrust sense and where substitutes are available. This would involve a change in patent policy, but it arguably is a desirable change because the scale of lost profits awards should vary with the nature of patent. If a patented product has economic substitutes, then it is appropriate that the rewards for that patent be lower than in cases where the patented product is unique.

II. Antitrust Market Definition

Antitrust law has as its central concern the promotion of competition. Competition takes place, if at all, in markets. Thus, an initial step in assessing competition and market power is to define the relevant market. A market "is the arena within which significant substitution in consumption or production occurs. That arena tends to exhibit uniform prices throughout."[1] Antitrust markets have both product and geographic dimensions.[2] In relation to product, courts include in the market "commodities reasonably interchangeable by consumers for the same purposes,"[3] that is, by reference to cross-price elasticities. Courts also consider supply-side substitution.[4] The geographic dimension depends upon firms' ability to "sell beyond their immediate locations."[5] The "area of effective competition in the known line of commerce must be chartered by careful selection of the market area in which the seller operates, and to which the purchaser can practicably turn for supplies."[6]

A market also can be seen as "the array of producers of substitute products that could control price if united in a hypothetical cartel or as a hypothetical monopoly."[7] This is the approach embodied in the Department of Justice and Federal Trade Commission Horizontal Merger Guidelines. The Guidelines identify a product market as the smallest group of products over which a hypothetical monopolist could profitably impose at least a "small but significant and nontransitory" increase in price.[8] Geographic market definition takes a similar approach to a group of locations.[9]

Antitrust courts define markets in order to assess market structure and market shares, from which they then can assess market power.[10] Market definition is therefore an instrumental concept. To be a useful instrument, the market defined has to be the market relevant to the alleged antitrust violation, and different markets may be found within the same industry for different antitrust purposes.[11] Antitrust market definition is therefore a flexible concept, drawing on economic principles to produce a tool for assessment of antitrust violations.

III. Markets and Market Definition in Intellectual Property Law

Courts in intellectual property cases generally do not use antitrust market analysis, although there are a number of explicit and implicit references to market concepts in intellectual property law. This section considers the use of market concepts in three areas of intellectual property law—trademark, patent, and copyright—and reviews intellectual property law approaches to market definition. The following section explores possible explanations for the differing approaches to market definition taken in antitrust and intellectual property law.[12] Possible explanations include: (i) intellectual property cases are commonly about new products not yet on the market, so there is a lack of empirical data about customer preferences; (ii) desire to preserve judicial freedom of movement in weighing the equities in any particular case; (iii) reluctance to import antitrust doctrine, with the accompanying costs involved in using economic evidence, and the risk of unanticipated results; (iv) the traditional approach of lawyers in bringing cases; and (v) that "market" and market concepts carry different meanings in antitrust and intellectual property law contexts, appropriate to the objectives of these different areas of law.

A. Trademarks and Unfair Competition

The traditional purpose of trademark law is to protect consumers from confusion and to save consumer search costs in the marketplace. Producers use trademarks to distinguish their goods and services from the goods and services of their competitors. Trademark protection provides incentives to producers to invest in consistency and quality, to the benefit of consumers.[13] Facilitating competition is therefore a fundamental underlying principle of trademark law, and because competition only takes place in markets, facilitating competition also must involve some more or less explicit exercise in market definition. In practice, courts in trademark cases regularly are required to consider competition and competitors, but they do not use antitrust market analysis for this purpose. The law of trademark functionality and the law of trademark infringement provide useful examples.

1. Functionality

Section 2(e)(5) of the Lanham Trademark Act of 1946[14] provides:

> No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it. . . .
>
> …
>
> (e) Consists of a mark which
>
> …
>
> (5) comprises any matter that, as a whole, is functional.

Registration therefore is not available for functional trademarks. Functionality is most commonly an issue in trade dress cases where the issue is whether the overall appearance of a product is functional, [15] and in product design cases, where an applicant seeks registration for the shape or configuration of a product.[16] Generally, registration is sought before the product is marketed. The U.S. Supreme Court held in *Qualitex Co. v. Jacobsen Products Co., Inc.*[17] that

> [t]he functionality doctrine prevents trademark law, which seeks to promote competition by protecting a firm's reputation, from instead inhibiting legitimate competition by allowing a producer to control a useful product feature.

The Court emphasized that it was the role of patents, not trademarks, to protect new product designs or features. The Court held that a product feature is functional and cannot serve as a trademark "if it is 'essential to the use or purpose of the article or if it affects the cost or quality of the article,' that is, if exclusive use of the feature would put competitors at a significant non-reputation-related disadvantage."[18]

In *In Re Morton-Norwich Products, Inc.*[19] the Court of Customs and Patent Appeals held that "[u]tilitarian means superior in function . . . or economy of manufacture, which superiority is determined in light of competitive necessity to copy."[20] The court identified factors for assessing functionality: (i) the existence of an expired patent disclosing the utilitarian advantage of the design, which would provide evidence of functionality; (ii) whether there was advertising of utilitarian advantages; (iii) whether there are other alternatives available; and (iv) whether the particular design results from a comparatively simple or cheap method of manufacture.[21]

Most recently, in *TrafFix Devices, Inc. v. Marketing Displays, Inc.*[22] the Supreme Court considered functionality in relation to a mechanism for keeping outdoor signs upright. The Court held that a feature is functional "when it is essential to the use or purpose of the device or when it affects the cost or quality of the device."[23] Where the design is functional under this formulation, there is no need to consider the competitive necessity of the feature. *TrafFix* applies to product configuration cases, although it arguably does not apply to container configuration and trade dress cases. In cases of aesthetic functionality, the Court in *TrafFix* held that "[i]t is proper to inquire into a 'significant non-reputation-related disadvantage.'"[24] This may be compared to an alternative test for aesthetic functionality proposed by Judge Posner in *Publications International v. Landoll*: "[If] consumers derive a value from the fact that a product looks a certain way that is distinct from the value of knowing at a glance who made it, then it is a nonappropriable feature of the product."[25]

After *TrafFix*, competitive disadvantage remains an issue with respect to aesthetic functionality and arguably also with respect to trade dress functionality. In these cases, assessment of functionality requires consideration of whether registration of the trademark would disadvantage competitors. This assessment apparently requires courts to identify competitors, which in turn requires identification of the market in which they compete. However, courts in cases where functionality is an issue generally do not use even a modified version of antitrust market definition analysis. Rather, they generally decide that competitors are or are not disadvantaged without defining the market, although in some cases considerable evidence of competitive alternatives to the allegedly functional trademark design is presented.

Two pre-*TrafFix* cases are illustrative. First, in *In re Babies Beat Inc.*[26] the applicant applied for a trademark registration for the shape of an easy-to-hold babies' bottle, and the application was rejected by the Examining Attorney on grounds of, *inter alia*, functionality. The applicant appealed and produced as evidence a competitor's bottle that also was easy to hold, suggesting that competitors did not need to use the applicant's design and would not be disadvantaged by registration. The Trademark Trial and Appeal Board nevertheless upheld the finding of functionality, holding that the two easy-to-hold babies' bottles were not substitutes because of differences in the grippers and in ease of cleaning. Thus, in antitrust terms, the Board effectively found that the relevant market was a single product market for the applicant's bottle.

The second case, *In re Weber-Stephen Products Co.*[27] involved an application for registration for the design of a barbecue grill using a "kettle body and legs," which also was rejected by the Examining Attorney as functional. In arguing that the mark was not functional, the applicant presented extensive evidence of alternative shapes and designs. The Board found:

> In summary, the evidence indicates that a wide variety of alternative barbeque grill designs, including other covered round designs, is available to applicant's competitors, and that applicant's covered round design is not superior, in cooking performance, to any of the other covered designs, be they round, square, rectangular, or whatever.[28]

The Board also found no evidence that the applicant's design was cheaper or simpler to make. The Board held that the mark was not functional. Although it did not undertake any express exercise in market definition, it effectively found that there was a market for barbecue grills in which the applicant's design was just one of a number of substitute grill designs.

Thus, although courts in at least a subset of functionality cases are required to consider competition, they do not use antitrust market definition. This is so despite the fact that the objectives of functionality doctrine and trademark law generally are congruent with the objectives of antitrust law; both regimes are concerned primarily with promoting and facilitating competition in the interest of consumers. In addition, trademark law does not provide incentives for innovation as a primary goal.

Antitrust market definition usefully could be imported into this area of trademark law. Antitrust market definition could function as an appropriate and useful tool in trademark analysis, and it could produce more consistent and predictable results. For example, use of antitrust analysis would not have led to a finding of a single product market in *In re Babies Beat Inc.*, and the applicant need not have been denied registration. The result therefore would have been more consistent with that in *In re Weber-Stephen Products Co.*

2. Trademark Infringement

Section 32(1) of the Lanham Act provides:

> Any person who shall, without the consent of the registrant-
>
> (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant for the remedies hereinafter provided. . . .[29]

In assessing likelihood of confusion, courts look at a number of factors. These factors are not standard across the circuits, but they are broadly similar. In *Polaroid Corp v. Polarad Elects. Corp.*,[30] the Second Circuit enunciated a non-exhaustive list of eight factors for evaluating likelihood of confusion between non-identical goods or services:

1. The strength of the plaintiff's mark
2. The degree of similarity between plaintiff's and defendant's marks
3. The proximity of the products or services
4. The likelihood that the plaintiff will bridge the gap
5. Evidence of actual confusion
6. Defendant's good faith in adopting the mark
7. The quality of defendant's product or service
8. The sophistication of the buyers

The third and fourth factors—proximity of the products or services and likelihood that the plaintiff will bridge the gap—require assessment of the relevant market. The proximity of products or services factor requires courts to consider how close the products or services are in the marketplace or in stores. The likelihood that the plaintiff will bridge the gap asks whether consumers think that the plaintiff will move into the defendant's product category. It is at least arguable that a considered assessment of market proximity requires identification of the markets in which the plaintiff's and defendant's goods or services are sold. However, courts in trademark infringement cases do not expressly undertake antitrust market definition in this context. Indeed, it is common to see assertions regarding what the market is without the sort of empirical evidence required in the antitrust context. The following cases provide examples of this approach and of some of its uncertain results.

In *E. & J. Gallo Winery v. Consorzio del Gallo Nero*[31] the plaintiff owned the registered trademark "Gallo," which it used on its wines in the United States. The defendant, Gallo Nero, was an Italian trade association that promoted Chianti wines and had long used "gallo nero" on its wines in Italy but had not yet used it in the United States. The defendant argued that the goods were not similar because it sold only Italian-produced Chianti, and the plaintiff sold only U.S.-produced wines, not including Chianti. The court, however, held that the goods were substantially similar, referring to the fact that wines of all types constitute a single class of goods in the Patent and Trademark Office and to the fact that plaintiff and defendant used similar marketing channels. The court also noted that confusion is more likely for "relatively inexpensive, 'impulse' products to which the average 'unsophisticated' consumer does not devote a great deal of care and consideration in purchasing."[32] The court put wine into this "impulse" category, citing testimony from the defendant's employees that "the average American consumer is unlearned in the selection of wine."[33] The court did not use an antitrust approach to define the market, taking into account substitution effects, and its reliance on Patent and Trademark Office classifications was not consistent with an economic approach.

Gallo can be compared to the case of *Banfi Products Corp. v. Kendall-Jackson Winery Ltd.*,[34] also a wine case. In assessing the proximity of the products, the court found that one wine was a cheaper "affordable, everyday red wine" and the other a more expensive "high-end, special occasion wine" and that they were sold from different locations. It therefore found that the products differed "in ways that may be deemed material to consumers." It also found no evidence that the party alleging infringement planned to bridge the gap, although it did not consider whether consumers would think it was likely to do so. Interestingly, the court also found that wine purchasers were likely to be "older, wealthier and better educated than the general population," suggesting relative sophistication.[35] The court concluded that there was no likelihood of confusion. Thus, the *Banfi* court did not find that all wine was in the same market, as the *Gallo* court did. However, neither court undertook an antitrust market analysis. Both courts made assertions about what consumers were likely to think or do without empirical evidence, and they came to apparently inconsistent conclusions.

There are similar examples of this non-empirical approach to market definition in trademark cases in which the First Amendment is implicated. In *MGM-Pathe Communications Co. v. Pink Panther Patrol*[36] the owner of the registered trademark "The Pink Panther" sought to enjoin the use of its mark by "The Pink Panther Patrol," a New York City street patrol that aimed to protect the gay community against attacks and to educate the public about anti-gay violence. The court found a lack of proximity between the plaintiff's product and defendant's services, but this "did not insure that confusion would be avoided."[37] The public could easily draw an inference that the plaintiff sponsored the defendant, and both parties used their marks on T-shirts. The court stated:

> [A]lthough plaintiff and defendants are primarily engaged in different types of "commerce", the Patrol seeks public recognition for its name and mission in the news media, which is not so different from plaintiff's field of entertainment. It is indeed entirely likely that a large percentage of the population of the United States might see and hear both plaintiff's and defendants'

> names during a single evening of nationwide television broadcasting, if a telecast of an MGM film should be followed by a newscast including reference to the Patrol's activities.[38]

In relation to bridging the gap, the Patrol argued that it was unlikely that MGM would enter the field of protecting homosexuals from attack. However, the court held that "[b]oth users are promoting their marks in the same marketplace—the general public for television entertainment and news."[39]

Where the two uses were likely to engender confusion, the absence of any likelihood that the plaintiff would bridge the gap was less significant. Thus, the court defined the market extremely broadly, without substantial empirical evidence. This market definition suggested that the parties were in fact competitors and assisted the plaintiff in establishing likelihood of confusion.

MGM can be compared to *Yankee Publishing Inc. v. News America Publishing Inc.*,[40] which was decided by the same judge the following year. In *Yankee*, the plaintiff was publisher of the *Old Farmer's Almanac* and the holder of a registered trademark in its cover design. The defendant was the publisher of *New York* magazine, which had published an issue with a cover design that was a takeoff of the *Almanac* cover design. The court found no likelihood of confusion, and that even if there was, it was outweighed by First Amendment considerations. In relation to proximity of products and bridging the gap, plaintiff argued that both magazines were in the same "magazines" market. However, the court held that this was "too crude a characterization" and that the products were in fact far apart and that there was no likelihood that either would bridge the gap. The court stated:

> The markets for New York and the Almanac are quite different. They discuss fundamentally different materials; they espouse different values; they sell primarily in different markets, both as to location and customer base. There is no indication in the record that purchasers of New York have any interest in buying the Almanac or vice versa.[41]

Thus, the court found a narrow market, and, in doing so, drew conclusions about consumers, apparently without substantial empirical evidence. The finding of a narrow market in which the parties were not competitors favored the defendant and supported a finding that confusion was not likely.

These cases demonstrate the importance of market definition in trademark infringement cases and the effect the holding as to market definition can have on the ultimate finding as to infringement. The courts do not use empirical evidence in defining the market and do not use an antitrust approach. As with the doctrine of functionality, this is so despite trademark law and antitrust law having common objectives of protecting consumer interests and despite the relative unimportance in trademark law of concern for innovation as compared with other areas of intellectual property law. Antitrust market definition could usefully be imported into trademark infringement analysis. An antitrust approach would enable courts to refer to empirical evidence of consumer behavior and therefore to make more informed decisions. It should also produce more consistent and predictable results for litigants. For example, antitrust market definition likely would not have led to a finding that both parties were in a market for "television entertainment and news" in *MGM-Pathe Communications*, and the infringement result, accordingly, may have been different. In relation to the wine cases *Banfi* and *Gallo*, use of an antitrust market definition approach would have required empirical evidence about consumer preferences that would have indicated whether consumers regarded cheap wine as a substitute for expensive wine and whether sale from different locations was material. This evidence would have been the basis for defining the market.

B. Patents

The overall purpose of patent law is to promote innovation because innovation is understood to provide broad social benefits. Patent law therefore provides an inventor with exclusive rights in his or her invention for a limited period of time in return for public disclosure as a reward for innovation and as an incentive for further innovation.

Competition and consumer protection are not central concerns of patent law, as they are in trademark law and in antitrust. Nevertheless, patent law is concerned with competition, and market concepts are essential elements in patent doctrine in relation to patent misuse and patent damages.

1. Patent Misuse

The patentee's right to exclude others from making, using, or selling the patented invention enables the patentee to profit from the invention. Because a patent enables the patentee to exclude competitors, there is potential for anticompetitive effects, particularly where the patent creates market power.[42] There is thus an inherent tension between patent law and competition, and antitrust law applies to patents as to other intellectual property. Within patent law, the doctrine of patent misuse also mediates this tension.

Patent misuse is a defense to infringement, and it can be established even where the patentee's conduct does not give rise to an antitrust violation.[43] The doctrine requires that the alleged infringer show that the patentee has "impermissibly broadened the 'physical or temporal scope' of the patent grant with anticompetitive effect."[44] Tying and post-expiration royalties constitute *per se* patent misuse.[45] In relation to other practices, courts determine whether the practice relates to subject matter within the scope of the patent claims. If it does not broaden the claims, it is not misuse. If the practice "has the effect of extending the patentee's statutory rights and does so with an anti-competitive effect," then it will be analyzed under an antitrust rule of reason.[46] The remedy for patent misuse is that the patent is unenforceable.[47] The harshness of this remedy is justified on the ground that misuse harms the public. However, a patent can become enforceable again if the patentee "purges" (or abandons) the misuse.[48]

Patent misuse law was reformed by the Patent Misuse Reform Act of 1988, which added section 271(d)(5) to the Patent Act of 1952.[49] Section 271(d)(5) provides:

> No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following:
> . . .
>
> (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

In early patent misuse cases courts did not consider whether the patentee had market power but rather referred to the "patent monopoly," on the assumption that every patentee had a monopoly in his or her patented product.[50] The patent claims defined the market. Patent misuse therefore could be found in cases in which an antitrust claim would not have succeeded. Section 271(d)(5) explicitly requires an assessment of market power in the relevant market, requiring definition of the relevant market. During the Senate discussion of the Patent Misuse Reform Act, Senator Leahy, chairman of the Subcommittee on Technology and the Law, stated: "Courts will have to go through the process of evaluating the patent owner's market power . . . and must consider the availability of substitutes, and the existence of any business justifications or other benefits, before concluding that a patent has been misused."[51]

In the House of Representatives, Representative Robert W. Kastenmeier, who introduced the bill, stated:

> The use of the term relevant market is designed to import into the courts' analysis the idea that the scope of the product involved focuses the court's attention on the nature of the property right. If a patented product is unique because no practical substitutes exist, the scope of the relevant market would be coextensive with the patent. In the situation where the product is sold in a marketplace context where there are substitute products, the scope of the market should resemble the typical antitrust analysis of relevant market.[52]

Subsequent cases have adopted an approach to market definition much closer to the antitrust approach and have rejected the argument that a patent right automatically creates a monopoly or market power.[53] There have been suggestions that patent misuse and antitrust claims are now so similar that they are effectively converging.[54] This is especially so as an antitrust claim is available as an affirmative defense against infringement.[55] However, patent misuse is available even where the conduct does not constitute an antitrust violation, and it offers the lesser remedy of unenforceability as compared with treble damages for an antitrust violation. It is arguable that the two causes of action have somewhat different objectives—that patent misuse controls the proper scope of the patent rights whereas antitrust law deters anticompetitive conduct.[56] If the latter objective is favored, it clearly is appropriate for courts to use antitrust market definition in patent misuse cases, as the causes of action are virtually the same.

However, if the objective is control of the proper scope of the patent rights, it still is arguable that antitrust market definition is a useful and appropriate tool for assessing competition and market power. The legislative history suggests that it certainly should be used in the context of section 271(d)(5) findings on market power. Beyond section 271(d)(5), use of antitrust market definition would not affect *per se* misuse, but it would affect rule of reason analysis, which considers whether the practice imposes an "unreasonable restraint on competition."[57] It might be argued that use of antitrust market definition in this context would effectively raise the bar for a party pleading misuse by requiring proof of market power, thereby favoring patentees, and that this would be contrary to the objectives of the misuse doctrine. However, given that courts apparently have imported antitrust rule of reason analysis, it would be anachronistic not to also use antitrust market definition. Antitrust market definition therefore seems appropriate in cases of patent misuse.

2. Patent Damages

Section 284 of the Patent Act provides: "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention. . . ."

Patentees generally seek damages in the form of lost profits but will seek a reasonable royalty if lost profits cannot be proved. Lost profits claims raise issues of market definition. In *Aro Mfg Co. v. Convertible Top Replacement Co.*, the Supreme Court observed: "The question to be asked in determining damages is 'how much had the Patent Holder and Licensee suffered by the infringement. And that question is primarily: had the Infringer not infringed, what would the Patentee Holder-Licensee have made?'"[58]

Section 284 therefore establishes a "but for" test; that is, lost profits are determined to be the sales and profits the patentee would have made but for the infringement.[59] In 1978, the Sixth Circuit established the *Panduit* test for lost profits:

> To obtain as damages the profits on sales he would have made absent the infringement, i.e., the sales made by the infringer, a patent owner must prove: (1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made.[60]

The *Panduit* test is useful and widely used, although it is not the exclusive way for a patentee to prove entitlement to lost profit damages.[61] Element two of the *Panduit* test suggests a need for market definition, but courts applying *Panduit* do not treat this as a requirement to identify economic substitutes and therefore to undertake an economic market definition exercise. Rather, they generally define the market by the scope of the patent claims. The *Panduit* court stated that "a product lacking the advantages of that patented can hardly be termed a substitute 'acceptable' to the customer who wants those advantages."[62] In a footnote, the court observed:

> The "acceptable substitute" element, though it is to be considered, must be viewed of limited influence where the infringer knowingly made and sold the patented product for years while ignoring the "substitute". There are substitute products for virtually every patented product; the availability of railroads and box cameras should not of itself diminish royalties payable for infringement of the right to exclude others from making and selling the Wright airplane or the Polaroid camera.[63]

This suggests that the Sixth Circuit was expressly excluding antitrust-style market definition from the identification of acceptable noninfringing substitutes. (It also suggests some confusion between economic substitutes and mere alternatives.)

After *Panduit*, courts tended to take a restrictive approach to acceptable substitutes, effectively defining the market as being co-extensive with the patent claims. Patented inventions were found to have no substitutes even where consumers might have perceived substitutes to exist, with the apparent effect that patents were presumed to grant market power.[64] For example, in *Polaroid Corp. v. Eastman Kodak Co.*,[65] the court held that "acceptable substitutes are those products which offer the key advantages of the patented device but do not infringe." The inquiry is "quite narrow," and "[m]ere existence of a competing device does not make that device an acceptable substitute."[66] On the facts, the court held that conventional photography was not an acceptable noninfringing substitute for instant photography.[67] However, the court held that competition from conventional photography did affect the price of instant photography, and the court took this into account in assessing the profit the patentee would have made but for the infringement.[68]

In assessing substitutability for the *Panduit* test, courts generally have not used antitrust market analysis. Examples are *State Industries, Inc. v. Mor-Flo Industries, Inc.*,[69] in which the district court found (and the Federal Circuit did not disagree) that fiberglass insulation for water heaters was not an acceptable substitute for foam insulation, and *Radio Steel & Mfg. Co. v. MTD Products, Inc.*,[70] in which the Federal Circuit held that conventional wheelbarrows were not acceptable substitutes for a patented wheelbarrow despite evidence that consumers regarded them as substitutes. Similarly, in *Rite-Hite Corp. v. Kelley*

Co.[71] the district court held that there was no acceptable noninfringing substitute, although without discussing market definition. This finding was upheld on appeal,[72] also without the court determining an express market definition.

Market definition was also relevant in *Rite-Hite* in a separate context from consideration of acceptable noninfringing substitutes. The Federal Circuit awarded lost profits for sales lost not from the patented product but from another product also made by the patentee and covered by a separate patent, finding that these lost sales were "reasonably foreseeable."[73] Dissenting in part, Judge Nies argued that lost profits were not available for lost sales of a product not covered by the scope of the patent claims and that a reasonable royalty should apply instead. To grant lost profits would be to extend the scope of the patent to cover subject matter not within the claims.[74] Judge Nies wrote:

> [T]he majority's foreseeability standard contains a false premise, namely, that the "relevant market" can be "broadly defined" to include all competitive truck restraints made by the patentee. The *relevant* market for determining damages is confined to the market for the invention in which the patentee holds exclusive property rights. . . . In sum, patent rights determine not only infringement but also damages.[75]

The majority replied that Judge Nies "appears to confuse exclusion under a patent of a product that comes within the scope of the claims with the determination of damages to redress injury caused by patent infringement once infringement has been found."[76] The discussion reveals a difference over market definition in assessing lost profits, with dispute over whether the patent claims define the market or whether other competing products made by the patentee are in the market. However neither conception represents an economic approach to market definition as seen in antitrust cases.

In a subsequent case, *Grain Processing Corp. v. American Maize-Products Co.*,[77] the Federal Circuit held that a noninfringing alternative available to the infringer but not on the market at the time of infringement could constitute an acceptable noninfringing substitute.[78] It also considered the question of *acceptability* of substitutes, stating:

> Consumer demand defines the relevant market and relative substitutability among products therein. . . . Important factors shaping demand may include consumers' intended use for the patentee's product, similarity of physical and functional attributes of the patentee's product to alleged competing products, and price. . . . Where the alleged substitute differs from the patentee's product in one or more of these respects, the patentee often must adduce economic data supporting its theory of the relevant market in order to show "but for" causation.[79]

This offers infringers the opportunity to show that consumers do not demand every claimed feature of the patentee's product and that there is a noninfringing substitute available.[80] The Federal Circuit here comes closer to an economic approach to market definition. However, on the facts, the court in *Grain Processing* found that the product (Process IV Lo-Dex 10) was a "perfect substitute" which, in the eyes of consumers, "was the same product, for the same price, from the same supplier as Lo-Dex 10 made by other processes."[81] The approach and outcome might therefore be different where consumers do not see the products as the same, and a patent claim-based market definition still might be available.

The Federal Circuit considered market definition in the context of lost profits most recently in *Micro Chemical, Inc. v. Lextron, Inc.*[82] Judge Rader addressed market definition issues directly, using an approach closer to antitrust, but still defining the market in terms of the patent claims rather than in antitrust terms: "The proper starting point to identify the relevant market is the patented invention. The relevant market also includes other devices or substitutes similar in physical and functional characteristics to the patented invention. It excludes, however, alternatives 'with disparately different prices or significantly different characteristics.'"[83]

In sum, lost profits claims require courts to consider substitution, but courts generally do not use the type of analysis used in antitrust and define the market by the patent claims. The objective here is to award damages "adequate to compensate" the patentee. An antitrust approach to identifying substitutes would tend to reduce damage awards to patentees, perhaps producing awards that courts would not consider "adequate to compensate" as required by the statute. However, it is arguable that protectionist policy objectives have produced excessive damages awards,[84] with a potential chilling effect on second-comers, and that antitrust market definition therefore could tilt the balance toward a less protectionist approach. While large rewards may be necessary for patents to provide an adequate incentive to innovate,[85] this principle applies only where the patent describes an important advance. Patents do not automatically confer market power. In cases where there exist acceptable noninfringing substitutes in an economic sense, then lost profits awards should be more limited than in cases where a patent genuinely confers market power. Use of antitrust market definition therefore would be a means of tailoring damages awards according to the importance of the patent.

C. Copyright

1. Fair Use

Section 107 of the Copyright Act of 1976[86] provides that fair use of a copyrighted work 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 non-profit 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.

The factors are unweighted, and the provision is open to criticism as being manipulable. The fourth factor explicitly directs a court to identify the potential market for the copyrighted work. Courts have given considerable weight to this factor. In *Campbell v. Acuff-Rose Music, Inc.*[87] the Supreme Court held that "since fair use is an affirmative defense, its proponent would have difficulty carrying the burden of demonstrating fair use without favorable evidence about relevant markets."[88] However, the Court also stated in a footnote that "even favorable evidence, without more, is no guarantee of fairness," and that[89]

> [t]his factor, no less than the other three, may be addressed only through a "sensitive balancing of interests.". . . 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.[90]

Where the challenged use is noncommercial in nature, the copyright holder has the burden to show market harm under the fourth factor.[91] Market harm includes not only harm to the original but also harm to derivative works,[92] "because the licensing of derivatives is an important economic incentive to the creation of originals."[93] In *Campbell* the Supreme Court held that courts are concerned only with the harm of market substitution or displacement of the work. Disparagement of the original, in the form of literary criticism, for example, may harm a work but nevertheless constitute fair use. When the use claimed to be "fair" is transformative rather than merely duplicative, market harm may not too readily be inferred.[94]

Courts increasingly have interpreted this fourth factor as permitting fair use only where "market failure" is present. This is based on the idea that copyright exists to protect a copyright owner's market.[95] In this context, courts have interpreted market failure as existing where a market for the work is not operating for technical reasons;[96] because of a copyright owner's refusal to license;[97] or because the use the defendant will make of the work will confer public benefits for which the user cannot pay the copyright owner.[98]

Courts place importance on the market harm factor, and they increasingly conceptualize fair use as market failure.[99] However, the concepts of market harm and market failure are less than clear about exactly what constitutes the market in this context. The statute provides that harm can be to the potential market, such that derivative markets are covered. Courts therefore look at the market for the work and for possible future works that derive from the original. What is not clear is how the courts should or do identify and define the market for a work or a license for a work. The concept of "market failure" also is not useful in clarifying *which* market is relevant to the inquiry. It is not clear *which* market must have failed in order for fair use to be justified or what kind of analysis should be used to identify the market.

We do know that courts do not engage in antitrust market definition in this context. For example, in *Campbell* the Supreme Court referred only to "market harm to the original" and "the market for a non-parody rap version."[100] Similarly, in *A&M Records, Inc., v. Napster, Inc.*,[101] the district court found that Napster harmed "the market for plaintiffs' copyrighted musical compositions and sound recordings by reducing CD sales among college students." It also harmed the "present and future digital download market."[102] These findings were not disturbed on appeal. In *American Geophysical Union v. Texaco Inc.*[103] the Second Circuit considered the market for journal subscriptions (as no market existed for individual copies of articles), and the market for institutional users to obtain licenses.[104] In *Harper & Row* the Supreme Court referred to the "market for prepublication excerpts."[105] In none of these cases did the court use antitrust market definition.

The "potential market" for the work in section 107 is interpreted to mean sales or potential sales or licenses of the work and its derivatives. The market is a single-product market in each case. Clearly, courts are required to consider sales and licensing of the work and derivatives, but they should consider sales and licensing of the individual work within the context of the market as defined in antitrust terms. The approach that defines the market as a single-product market has the effect of favoring the copyright holder. If the market is defined as a single-product market, then every copyright holder is a monopolist in its own product. The copyright holder has market power and can expect monopoly rents in the form of higher prices or higher license fees. The user has no alternatives to using the copyright work, as there are no substitutes, and is therefore expected to be willing to pay more for the work.

This is in contrast to an antitrust approach to market definition, which generally would not find a single-product market for each work but, rather, would find that works were sold and licensed in markets in which consumers could substitute one work for another and copyright owners could not extract monopoly rents.[106] The Department of Justice and Federal Trade Commission's Antitrust Guidelines for the Licensing of Intellectual Property are explicit on this point:

> The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although the intellectual property right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power. If a patent or other form of intellectual property does confer market power, that power does not itself offend the antitrust laws. . . . As in other antitrust contexts, however, market power could be illegally acquired and maintained, or, even if lawfully acquired and maintained, would be relevant to the ability of an intellectual property owner to harm competition through unreasonable conduct in connection with such property.[107]

This difference matters. Courts considering a work for which they perceive there to be no substitutes will see the work as being more valuable in a market sense than it really is. This may lead them to be more concerned about market harm and more protective of copyright holders. They are therefore less likely to find that a use is fair and more likely to award large damages for a work that they believe is more valuable than it is. The overall effect, then, is to create a more protectionist approach to fair use than would be the case if antitrust market definition were used. Use of antitrust market definition in this context would provide a useful, economically rational approach to the market harm element of fair use without biasing findings toward excessive protection.[108]

IV. Rationales for Different Concepts of "Market" and Different Approaches to Market Definition

As discussed above, courts in intellectual property cases generally do not engage in antitrust market definition analysis, and "market" carries different meanings within different areas of intellectual property law, depending on the underlying purposes of the relevant intellectual property regime and the particular issue under consideration.

There are a number of plausible explanations for this difference in judicial approaches. First, it might be argued that intellectual property cases are about new products and that in many cases these will be products that have not yet come to market. For example, trademark functionality cases commonly arise at the time of application for trademark registration, before the product is marketed. Antitrust market definition therefore may be inappropriate, as there is a lack of empirical data about consumer preferences, as these preferences have not yet been developed. This is not a reason not to use antitrust analysis. It is true that new products raise some difficulties for market definition. However, these difficulties also would be faced by an antitrust court dealing with a new product, for example in an antitrust counterclaim. Evidentiary difficulties are not a reason to abandon antitrust market definition.

Second, it might be argued that intellectual property courts value judicial flexibility and that a formalized approach to market definition would limit judicial freedom of movement in weighing the equities in a particular case. On this rationale, courts are prepared to accept some uncertainty of outcome as the price of flexibility. This is a realist argument, and one that might be more convincing to judges than to potential litigants who (arguably) may place a higher value on certainty.[109]

Third, intellectual property courts may be reluctant to import antitrust doctrine and transplant it into intellectual property cases, with the risk of uncertain results. Courts also may be reluctant to burden the parties and the courts by requiring the kind of expensive and time-consuming economic evidence used in antitrust cases. This is a plausible but not a convincing explanation for the persistence of the status quo. In circumstances where intellectual property courts are required to define a market in order to identify competitors or assess market power, antitrust market definition offers a useful tool and should be employed.

Fourth, courts follow precedent, and therefore are heavily influenced by the reasoning used in prior cases in which antitrust market definition was not used. Courts are also influenced by the way in which cases before them are argued. If antitrust market definition is not argued, and economic evidence is not presented, then judges do not have a basis for using antitrust techniques in decision-making. This also is a plausible explanation for the status quo but not a good reason not to use a better approach.

Fifth, it might be argued that the concept of "market" in intellectual property law simply carries a different meaning or meanings from its antitrust law meaning. In intellectual property law, "market" is a flexible concept used to refer in some circumstances to sales and licenses of a product or right and in other circumstance to a market in which competitors operate. In any given intellectual property context, "market" has a particular meaning that is congruent with the objectives of the law. To use an antitrust market definition would alter this meaning in its context and produce different legal outcomes. On this rationale, it is arguable that antitrust market definition is an instrument designed for the identification of competition and market power. As such it is well-adapted for its antitrust purpose. However it is not a suitable instrument for intellectual property market definition. This last rationale is the strongest argument for retaining the status quo, at least in areas of law in which the concept of "market" is used for a purpose other than to assess competition or market power. It is unconvincing, however, in circumstances where courts in intellectual property cases are required to define a market in order to identify competitors or assess market power, and it is only convincing in other areas of intellectual property law if the underlying protectionist policy objectives are accepted.

V. Conclusion

Antitrust market definition could usefully be employed in these areas of intellectual property law. Trademark law has as its primary goal the facilitation of competition in order to protect consumers. It is not primarily about providing incentives for innovation, in contrast to patent and copyright law. Trademark law's basic objectives therefore are congruent with those of antitrust law. In both functionality and trademark infringement contexts, courts are required to identify competitors and substitute products. At present, courts reach conclusions based largely on assertions rather than on economic evidence. Use of antitrust market definition would produce more empirically based results and more consistent outcomes.

Antitrust market definition could also usefully be employed in patent misuse cases, in relation to and beyond section 271(d)(5). Patent misuse doctrine is now very close to antitrust, and there appears no compelling reason why markets should not be defined in the same way in order to assess competition and market power in the two causes of action, especially as the two commonly are pleaded together.

Patent damages and copyright cases are more difficult. Courts in these cases read "market" to mean a market defined by the patent claims or the work, so that the market as defined is a market for the invention or work. Economic substitution is not considered. On an antitrust view, this approach to market definition is simply wrong. However, market definition is only an instrument, and it is arguable that courts in these cases have developed a different instrument in order to achieve a different underlying policy objective. The effect of this approach is protectionist, and the underlying policy objective at work is to maximize the reward and protection to the rightholder. It is now acknowledged that an intellectual property right does not automatically confer a monopoly, so that intellectual property rights are not automatically suspect under the antitrust laws. However courts in these cases treat the intellectual property right as if it did confer a monopoly in order to provide additional protection.

In patent damages cases this protectionist approach arguably is an available interpretation of the statute (which refers only to "damages adequate to compensate"), although it is also arguable that damages calculated this way exceed "adequate." However, even accepting that this is a fair reading of the statute, a challenge still may be made to the underlying policy objective. It is arguable that a less protectionist approach is desirable and that use of antitrust market definition would produce more appropriate results. Antitrust market definition would not affect awards for patents covering unique products representing a significant advance on the prior art because there would not be noninfringing substitutes. Antitrust market definition would reduce awards where there were existing economic substitutes, because consumers do not regard the patent as describing something unique; that is, the patent does not confer market power. It is argued that this would be a desirable result, and generally in accord with the policy objectives of patent law, which aims to reward and provide incentives for innovation. More innovative patents would get more reward.

In cases of copyright fair use, it is arguable that Congress did not intend that "market" in section 107 be interpreted to mean only a single-product market for each work. It is at least equally likely that Congress intended an economic meaning of market, in which one work is a potential substitute for other works. The use of "market failure" offers no assistance here, as the doctrine offers no insights into *which* market is supposed to have failed. Antitrust market definition therefore could be imported into copyright fair use doctrine to provide an economically rational basis for a less protectionist interpretation. Courts then could consider the effect on sales or licensing of the particular work in the context of the market as defined in antitrust terms. Antitrust market definition therefore would be a means to reinvigorate fair use without abandoning an economic rationale.

This article has reviewed the uses of market concepts and market definition in intellectual property law and drawn comparisons with the antitrust approach to market definition. It argues that antitrust market definition should be imported into intellectual property law in circumstances in which intellectual property courts are required to define a market in order to identify competitors or assess market power. In other areas of intellectual property law, courts use a narrow interpretation of market in order to produce protectionist results. In these areas, the use of antitrust market definition could be employed to provide a rational basis for reduced protection, to the benefit of consumers, the public domain, and future innovators.

Endnotes

1. P. Areeda, H. Hovenkamp & J. Solow, 2A Antitrust Law: An Analysis of Antitrust Principles and Their Application, 180 (2d ed. 2002).
2. In relation to monopolization, Sherman Act § 2, 15 U.S.C. § 2 (1890) ("any part of . . . trade or commerce."). For mergers, Clayton Act § 7, 15 U.S.C. § 18 (1914) ("in any line of commerce . . . in any section of the country.").
3. *United States v. E. I. Du Pont De Nemours & Co.*, 351 U.S. 377 (1956).
4. *Telex Corp. v. IBM Corp.* 510 F.2d 894 (10th Cir. 1975).
5. Areeda et al., *supra* note 1, at 247.
6. *Tampa Ele. Co. v. Nashville Coal Co.*, 365 U.S. 320, 327 (1961) (quoted in *United States v. Philadelphia National Bank*, 374 U.S. 321 (1963)).
7. Areeda et al., *supra* note 1, at 181.
8. Department of Justice and Federal Trade Commission Horizontal Merger Guidelines 1992, at 1.11.
9. *Id.* at 1.21.
10. Areeda et al., *supra* note 1, at 190.
11. *Id.* at 202–03.
12. Antitrust law is also directly applicable to conduct in relation to intellectual property rights, and in an antitrust case a court would apply antitrust market definition to the intellectual property case. *See* Department of Justice and Federal Trade Commission Antitrust Guidelines for the Licensing of Intellectual Property 1995, at 1-2. However, this application of antitrust law is not the concern of this article. This article focuses on approaches to market definition *within* intellectual property doctrine.
13. *Qualitex Co. v. Jacobsen Products Co., Inc.*, 514 U.S. 159 (1995) (citing, *inter alia*, J. McCarthy, McCarthy on Trademarks and Unfair Competition § 2.01[2], 2–3 (3d ed. 1994)).
14. 15 U.S.C. § 1052(2).
15. *See, e.g., Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992).
16. *See, e.g., Qualitex*, 514 U.S. at 162 (holding that color was "within the universe of things that can qualify as a trademark."); *In Re Morton-Norwich Prods., Inc.*, 671 F.2d 1332 (C.C.P.A. 1982) (holding that the configuration of a spray container was not functional).
17. *Qualitex Co. v. Jacobsen Products Co., Inc.*, 514 U.S. 159, 164 (1995).
18. *Id.* (citing *Inwood Laboratories, Inc. v. Ives Laboratories Inc.*, 456 U.S. 844, 850 n.10).
19. *In Re Morton-Norwich Prods, Inc.*, 671 F.2d 1332 (C.C.P.A.) (1982).
20. *Id.* at 1339.
21. *Id.* at 1340–1.
22. 523 U.S. 23 (2001).
23. *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 523 U.S. 23, 32 (2001) (citing *Qualitex Co. v. Jacobsen Products Co., Inc.* 514 U.S. 159 (1995), and *Inwood Laboratories, Inc. v. Ives Laboratories Inc.*, 456 U.S. 844 (1982)).
24. *TrafFix*, 523 U.S. at 32–33.
25. 164 F.3d 337 (7th Cir. 1998).
26. *In re Babies Beat Inc.*, 13 U.S.P.Q. 2d 1729 (T.T.A.B. 1990).
27. 3 U.S.P.Q.2d 1659 (T.T.A.B. 1987).
28. *Id.*
29. 15 U.S.C § 1114.
30. 287 F.2d 492 (2d Cir.).
31. 782 F. Supp. 457 (N.D. Cal. 1991).
32. *Id.* at 465.
33. 782 F. Supp. 457 (N.D. Cal. 1991).
34. 74 F. Supp. 2d 188 (E.D.N.Y. 1999).
35. *Banfi,* 74 F. Supp. 2d at 197–99.
36. 774 F. Supp. 869 (S.D.N.Y. 1991).
37. *MGM-Pathe Communications,* 774 F. Supp. at 875.
38. *Id.*
39. *Id.*

40. 809 F. Supp. 267 (S.D.N.Y. 1992).

41. *Yankee Publishing,* 809 F. Supp. at 274.

42. Department of Justice and Federal Trade Commission Antitrust Guidelines for the Licensing of Intellectual Property 1995, at 1–2.

43. *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942).

44. *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 100 (1986) (quoting *Blonder-Tongue Lab., Inc. v. University of Ill. Found.*, 402 U.S. 313, 343 (1971) (cited in *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 868 (1997)).

45. *See Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942); *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

46. *Virginia Panel Corp.*, 133 F.3d at 869.

47. *Morton Salt Co.*, 314 U.S. 488.

48. *B.B. Chem. Co. v. Ellis*, 314 U.S. 495 (1942).

49. 35 U.S.C. § 271(d)(5) (as amended by the Patent Misuse Reform Act, Pub. L. No. 100-703, Title II, § 201, 102 Stat. 4676 (1988)).

50. *Morton Salt Co.*, 314 U.S. 488. *International Salt Co. v. United States,* 332 U.S. 392. The same principle was applied to copyright in *United States v. Loew's Inc.,* 371 U.S. 38 (1962).

51. 134 Cong. Rec. S17147-48 (daily ed. Oct. 21, 1988) (statement of Sen. Leahy) (quoted in *Texas Instruments Inc. v. Hyundai Elecs. Indus*., 49 F. Supp. 2d 893, 912 (E.D. Tex. 1999)).

52. Cong. Rec Oct. 20, 1988, p. 10649, reproduced in BNA's Patent, Trademark and Copyright Journal 36, Oct. 27, 1988, 226.

53. *See, e.g., Texas Instruments Inc.*, 49 F. Supp. 2d at 916.

54. This argument is made by Judge Posner in *USM Corp. v. SPS Techs., Inc*., 694 F.2d 505, 511 (7th Cir. 1982).

55. *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.,* 382 U.S. 172 (1965). In antitrust counterclaims, antitrust market definition is used.

56. Robert P. Merges & John P. Duffy, Patent Law and Policy 1376 (3d ed. 2002).

57. *State Oil Co. v. Khan*, 139 L. Ed. 2d 199 (1997) (citing *Arizona v. Maricopa County Med. Soc.,* 457 U.S. 332, 343 & n.13 (1982) (cited in *Virginia Panel Corp.*, 133 F.3d at 869).

58. *Aro Mfg Co. v. Convertible Top Replacement Co*., 377 U.S. 476 (1964) (cited in *Rite-Hite Corp v. Kelley Co.,* 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc)).

59. *Rite-Hite Corp.,* 56 F.3d at 1545.

60. *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.* 575 F.2d 1152, 1156 (6th Cir. 1978).

61. *Rite-Hite Corp.,* 56 F.3d at 1545.

62. *Panduit Corp.*, 575 F.2d at 1162.

63. *Id.*

64. Merges & Duffy, *supra* note 56, at 1124.

65. 16 U.S.P.Q.2d (BNA) 1481 (D. Mass. 1990).

66. *Polaroid Corp. v. Eastman Kodak Co.,* 16 U.S.P.Q.2d (BNA) 1481, 1491 (D. Mass. 1990).

67. *Id.* at 1492.

68. *Id.*

69. 883 F.2d 1573 (Fed Cir. 1989).

70. 788 F.2d 1554 (Fed. Cir. 1986). *See* Merges & Duffy, *supra* note 55, at 1123.

71. *Rite-Hite Corp. v. Kelley Co.,* 774 F. Supp. 1514 (E.D. Wis. 1991).

72. *Rite-Hite Corp.,* 56 F.3d 1538.

73. *Id.* at 1546.

74. *See* Merges & Duffy, *supra* note 56, at 1102.

75. *Rite-Hite Corp.,* 56 F.3d at 1569–70. Judge Nies was joined by Chief Judge Archer, Senior Circuit Judge Smith, and Circuit Judge Mayer.

76. *Id.* at 1547.

77. 185 F.3d 1341 (Fed. Cir. 1999).

78. *Grain Processing Corp.,* 185 F.3d at 1351.

79. *Id.* at 1355.

80. *See* Merges & Duffy, *supra* note 56, at 1118.

81. *Grain Processing Corp.,* 185 F.3d at 1355.

82. *Micro Chemical, Inc. v. Lextron, Inc.,* 318 F.3d 1119, 1124 (Fed. Cir. 2003.)

83. *Id.* at 1124 (quoting *Crystal Semiconductor Corp. v. Tritech Microelecs. Int'l Inc*., 246 F.3d 1336, 1356 (Fed. Cir. 2001)).

84. *Polaroid Corp. v. Eastman Kodak Co.,* 16 U.S.P.Q.2d at 1492, where the court assessed total damages of $873,158,971 (*see* 17 U.S.P.Q.2d (BNA) 1711 (D. Mass. 1991)), is an early example.

85. F. M. Scherer, *The Innovation Lottery*, in Rochelle Dreyfuss, Diane Zimmerman, Harry first, eds., Expanding the Boundaries of Intellectual Property: Innovation Policy For The Knowledge Society 3-21 (2001).

86. 17 U.S.C. § 107.

87. 510 U.S. 569 (1994).

88. *Campbell,* 510 U.S. at 590.

89. *Id.* at 591.

90. This contrasts with a statement in *Harper & Row Publishers, Inc. v. Nation Enterprises,* 471 U.S. 539, 566 (1985), in which the Supreme Court (in an opinion by Justice O'Connor) said that "This last factor is undoubtedly the single most important element of fair use." Since *Campbell,* courts have continued to treat the fourth factor as the most important. *See, e.g.*, *Princeton University Press v. Michigan Document Servs. Inc.,* 99 F. 3d 1381 (6th Cir. 1996) (en banc).

91. *Sony Corp. v. Universal City Studios, Inc.,* 464 U.S. 417, 451 (1984); *Princeton University Press,* 99 F. 3d 1381.

92. *Harper & Row*, 471 U.S. at 568; *Campbell, Inc.,* 510 U.S. at 592, *UMG Recordings, Inc. v. MP3.Com, Inc*., 92 F. Supp. 2d 349 (S.D.N.Y. 2002).

93. *Campbell v. Acuff-Rose Music, Inc.* 510 U.S. 569, 593 (1994).

94. *Id.* at 591–94.

95. In support of this proposition, the Supreme Court has cited Wendy Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and its Predecessors*, 82 Colum. L. Rev. 1600 (1982). *See Harper & Row,* 471 U.S. at 559.

96. High transaction costs may be a reason for this. *Sony* is often interpreted as having been decided on this basis, although the language in the *Sony* opinion does not actually support this interpretation. In *American Geophysical Union v. Texaco Inc.,* 60 F.3d 913 (2d Cir. 1994), the Second Circuit took this approach, finding a sufficiently developed licensing market (although the dissent disagreed on this point). In *Princeton University Press,* 99 F.3d 1381, the Sixth Circuit made a similar finding that market failure was not present because a licensing market already existed.

97. This is known as "endowment effects." *See* Wendy Gordon, *The "Market Failure" and Intellectual Property: A Response to Professor Lunney*, 82 B.U.L. Rev at 1031, 1033 (2002). Parody is an example. *See Campbell,* 510 U.S. at 591–94.

98. That is, "positive externalities" are present. *See* Gordon, *supra* note 97, at 133; Gordon, *supra note* 95, at 1630.

99. Wendy Gordon argues for a broader concept of market failure which asks "when can we as a society not safely rely on the bargain between owner and user to achieve social goals." Gordon, *supra note* 97, at 1037.

100. *Campbell,* 510 U.S. at 569, 593.

101. 239 F.3d 1004 (9th Cir. 2001).

102. *A & M Records, Inc., v. Napster, Inc.* 239 F.3d 1004, 1016 (9th Cir. 2001).

103. 60 F.3d 913 (2d Cir. 1994).

104. *American Geophysical Union,* 60 F.3d at 930–31 (2d Cir. 1994).

105. *Harper,* 471 U.S. at 568.

106. Compare *Broadcast Music, Inc. v. Columbia Broadcasting Sys., Inc.,* 441 U.S. 1 (1979).

107. Department of Justice and Federal Trade Commission Antitrust Guidelines for the Licensing of Intellectual Property 1995, at 2.2.

108. Antitrust market definition could be interpreted as suggesting that, since works generally have economic substitutes, defendants cannot rely on fair use where they could have used a different work (for example, parodied a different song). However, section 107 refers to "the use made of a work in any particular case." It is not concerned with other uses of other works. To interpret it in this way would lead to absurd results, contrary to the legislative intent in enacting section 107, and it is not advocated in this paper.

109. Of course, litigants generally prefer winning to certainty.

Anna Kingsbury is a lawyer in New Zealand, where she is a law academic at the University of Waikato School of Law in Hamilton. A version of this article, which won Second Prize in the Section's Annual Law Student Writing Contest, was first published in the *Marquette Intellectual Property Law Review*, Vol. 8 (Winter 2003/2004). The author thanks Professors Rochelle Dreyfuss and Harry First of New York University School of Law and the Colloquium on Innovation Policy at New York University School of Law for their comments.

Section Activities and Notices

The IP Law Section was selected by the U.S. Copyright Office to co-sponsor a program in New York City which featured top officials from the Copyright Office. The **"Copyright Office Comes to New York"** program was held on April 1, 2004, at Cardozo School of Law, which was also a co-sponsor. The conference was a terrific success, and included presentations from the Register of Copyrights, Marybeth Peters, and General Counsel of the Copyright Office, David Carson. The program was approved for 7 CLE credits, and, in keeping to the Section's commitment to providing first class seminars at low cost, the all-day program, which included breakfast, lunch and a cocktail reception, only cost members $200. Speakers from the Copyright Office, Congress and the private sector discussed important aspects of copyright law and practice including significant recent litigation, the copyright registration process, current legislative activity, and the Digital Millennium Copyright Act.

* * *

The idea behind the **"Intellectual Property and the Supreme Court"** program presented at Benjamin N. Cardozo School of Law on February 24, 2004, co-sponsored by the Section and the Cardozo Alumni Association, was to focus on the larger and more active role the Supreme Court has been playing in shaping intellectual property practice and law. The program was a great success, attended by about 150 people.

The program featured three distinguished intellectual property attorneys who shared their views on the Supreme Court's recent intellectual property decisions—views formed by their first-hand experiences before the Court. Dale Cendali of O'Melveny & Myers, LLP commented on her experience with trademark and dilution issues in the *Victoria's Secret* case and on her oral argument in *Dastar*. James W. Dabney of Fried Frank Harris Shriver & Jacobson LLP contributed his first-hand knowledge of the *Holmes Group* decision, as well as other prominent patent decisions such as *Festo* and *Markman*. And William Patry of Baker Botts, LLP rounded out the panel by leading a heated discussion and debate on the merits of the Supreme Court's copyright term extension decision in *Eldred*.

The Section was honored to have this distinguished panel provide their views and insight on the impact of the Supreme Court's intellectual property decisions.

Special thanks to Barbara Birch, Professor Justin Hughes, and the Cardozo Alumni Association for co-sponsoring and assisting with the event, and to all those who attended and made the program a success.

Marc A. Lieberstein

Protecting Online Databases from Robotic Attack: *Register.com, Inc. v. Verio, Inc.*

By Paul M. Fakler

On January 23, 2004, in *Register.com, Inc. v. Verio, Inc.*[1] the Second Circuit upheld a preliminary injunction, issued over three years earlier, that prohibited Verio, Inc. from using software robots to harvest contact information from Register.com, Inc.'s WHOIS database of domain name registrants for the purpose of telemarketing those registrants via e-mail, fax or phone.

Register.com, Inc. is a domain name registrar, accredited by the Internet Corporation for Assigned Names and Numbers (ICANN). Verio, Inc. is not an accredited registrar but provides various ancillary Internet services, such as Web hosting and Web site development, that potentially are of use to a consumer with a newly registered domain name. In September 1999, Verio began what it referred to internally as "Project Henhouse," in which it used various software routines, or "robots," to generate a list of every domain name registered within the previous twelve hours and then to query the WHOIS database of each respective registrar to harvest the contact information of each new registrant. That contact information was then fed into a telemarketing computer system, and, within hours of a domain name being registered, Verio would telemarket the new registrant via unsolicited e-mail or telephone call.

After receiving numerous complaints from irate customers who believed that Register.com either was affiliated with the Verio telemarketers or had sold the personal contact information to Verio, Register.com complained to Verio, demanding that it stop accessing the WHOIS database for telemarketing purposes. When Verio refused to stop, Register.com filed a lawsuit in New York district court and sought a temporary restraining order and preliminary injunction. The causes of action included trespass to chattels and breach of contract under New York law as well as federal unfair competition and Computer Fraud and Abuse Act claims. After the parties agreed to the temporary restraining order, the district court allowed expedited discovery and granted the preliminary injunction, finding a likelihood of success on all counts.[2]

The unfair competition claim was based upon Verio's telemarketing scripts and e-mail templates, which in conjunction with the short time between registration and telemarketing were held likely to create an impression that Verio's services were affiliated with or sponsored by Register.com.[3] The breach of contract claim was premised on the terms of use for Register.com's WHOIS database, which prohibited use of the contact data for the purposes of spam and other telemarketing by phone or fax.[4] These prohibitions were also the basis for the trespass to chattels and Computer Fraud and Abuse Act claims, which required a showing of unauthorized access (or access exceeding authorization) of Register.com's computer systems.[5] The district court's injunction prohibited Verio from: (1) using the REGISTER.COM or FIRST STEP ON THE WEB trademarks, or any similar designation, in connection with the advertisement of Verio's services; (2) making any statement or committing any act likely to cause third parties to believe that Verio's services were sponsored by or had the approval or endorsement of Register.com; (3) accessing Register.com's computers using software robots or in any manner inconsistent with the terms of use; or (4) further using any of the contact information previously harvested by Verio's software robots for telemarketing purposes.[6]

Verio appealed. The appeal was argued on January 21, 2001, but the court's opinion did not issue until over three years later due to an unusual course of events. After oral argument, the three-judge panel, consisting of Judges Leval, Parker and Keenan (sitting by designation), unanimously voted to affirm the injunction. The task of drafting the opinion was assigned to Judge Parker.[7] Some time thereafter, Judge Parker changed his mind as to some of the claims and produced a draft opinion that would have reversed the district court on portions of the injunction, although the prohibition on using software robots to harvest WHOIS data would have remained. Shortly after distributing his draft opinion to the panel in the hope of persuading the other judges to adopt his position, Judge Parker died. The other judges were not persuaded, however, and pursuant to Local Rule 0.14(b) of the Second Circuit, the appeal subsequently was decided unanimously by the two surviving judges. Judge Leval wrote the panel's opinion, and, out of respect for Judge Parker, included his draft opinion as an appendix to the official panel opinion.[8]

On appeal, Verio repeated the arguments rejected by the district court. First, Verio argued that the restrictions against telemarketing by phone and fax in Register.com's terms of use were unenforceable against Verio because they exceeded the restrictions allowed in Register.com's accreditation agreement with ICANN. In rejecting this argument, the Second Circuit noted that the ICANN agreement contained a valid prohibition on third-party beneficiaries, precluding Verio from attempting to enforce the restrictions on Register.com's access controls, and further observed that there was a procedure available to Verio through ICANN to raise any objections to Register.com's compliance with the terms of the accreditation agreement. Moreover, ICANN filed an *amicus* brief requesting that the court not allow Verio to use the accreditation agreement as a defense and thereby circumvent the ICANN grievance process. Perhaps most damaging to Verio's policy position, the court also noted that ICANN had subsequently changed the accreditation agreement to allow the exact prohibitions on telemarketing contained in Register.com's terms of use.[9]

Next, Verio argued that it had not assented to Register.com's terms of use because the terms of use restrictions did not appear until after each query to the database was made. Indeed, the restrictions first appeared at the top of the search results page. The court rejected this argument because, even if it were persuasive as to a one-time query or sporadic use of the database, the record showed that Verio had submitted numerous queries on a daily basis, which put Verio on notice of the terms of use. Indeed, Verio had admitted that it knew of the restrictions in the terms of use.[10]

Under these circumstances, the Second Circuit found assent to the terms of use, distinguishing its recent ruling in *Specht v. Netscape Communications Corp*.[11] In *Specht*, the Second Circuit held that no contract was created where Netscape posted terms of an agreement at the bottom of a Web page on the Web site from which users could download the software. Because users would not see the terms if they did not scroll down the page, and because under the facts of that case there was no reason for the users to do so, the court held that there was no evidence that users should have been aware of the terms of the agreement. Unlike in *Specht*, the Second Circuit reasoned, Verio was not engaged in a one-time download from a Web page with hidden terms but had visited Register.com's computers daily, saw the terms of Register.com's offer, and admitted knowing of the terms.[12]

The court also rejected the reasoning of the California district court in *Ticketmaster Corp. v. Tickets.com, Inc*.[13] The *Ticketmaster* court found insufficient proof of assent to be bound by an offer on the ground that the Web site at issue did not force users to check an "I agree" box before proceeding. In refusing to follow *Ticketmaster*, the Second Circuit noted that express agreement to be bound is not always required under contract law, and declined to create a higher standard in the rapidly evolving field of e-commerce.[14]

"By upholding the district court's injunction, the Second Circuit has validated a new arsenal of weapons against unauthorized data-harvesting from databases accessible on the Internet."

Turning to the trespass to chattels claim, Verio argued that there was an insufficient showing of harm to Register.com's computer systems from the robotic activity. The Second Circuit upheld the district court's finding that even though Verio's actions did not incapacitate the system, the potential aggregate activity if other Internet service providers were allowed to use similar robots was a cognizable harm under trespass to chattels and sufficient to justify the injunction.[15]

Finally, with respect to the Lanham Act claim, the Second Circuit upheld the injunction on two grounds. First, the court noted that in early calls to Register.com's customers, Verio's telemarketing scripts explicitly mentioned the customer's registration with Register.com and that the evidence showed that a number of registrants believed that the telemarketer was affiliated in some way with Register.com.[16] Second, the court upheld the district court's holding that even after ceasing to expressly use Register.com's name, Verio's telemarketers, calling shortly after registration of the domain name, left misleading messages stating that the call was regarding the recently registered domain name and asking to be called back. The evidence showed that callers receiving these messages thought that they were being contacted about a problem with their registration and called back only to find out that the call was not about the registration at all but was a telemarketing call to sell ancillary services.[17]

By upholding the district court's injunction, the Second Circuit has validated a new arsenal of weapons against unauthorized data-harvesting from databases accessible on the Internet. The mere act of making such databases available does not automatically render such databases, or the computer systems on which they reside, public property. Rather, database owners retain the ability to restrict access to these systems and have the legal tools to enforce those restrictions.

Endnotes

1. *Register.com, Inc. v. Verio, Inc.*, 2004 U.S. App. LEXIS 1074 (2d Cir. 2004) ("*Register.com II*").
2. *Register.com, Inc. v. Verio, Inc.*, 126 F. Supp. 2d 238 (S.D.N.Y. 2000) ("*Register.com I*").
3. *Id.* at 254–55.
4. *Id.* at 245–46.
5. *Id.* at 249–253.
6. *Id.* at 255.
7. *Register.com II*, 2004 U.S. App. LEXIS 1074, at *2 n.1.
8. *Id.*
9. *Id.* at *12–*18.
10. *Id.* at *21.
11. 306 F.3d 17 (2002).
12. *Register.com II*, 2004 U.S. App. LEXIS 1074, at *23–*24.
13. No. CV99-7654, 2000 WL 1887522 (C.D. Cal. Aug. 10, 2000).
14. *Register.com II*, 2004 U.S. App. LEXIS 1074, at *25–*28.
15. *Id.* at *30–*31.
16. *Id.* at *33.
17. *Id.* at *34.

Paul M. Fakler is an attorney with Baker Botts L.L.P. in New York. He is Secretary-elect of the Intellectual Property Law Section and Chair of the Section's Legislation Committee. He represented Register.com in this action, along with William F. Patry.

Save the Date!

The New York State Bar Association's Intellectual Property Law Section is happy to announce its 2nd Annual ***"Women in Intellectual Property Law"*** program to be held on Wednesday, June 2, 2004, 5:00 p.m. – 8:45 p.m. at Thelen Reid & Priest LLP, 875 Third Avenue @ 53rd St., New York City. The program is sponsored by Thelen Reid & Priest LLP and dessert is sponsored by THOMSON & THOMSON. This program will give women an opportunity to network among their colleagues and meet some of the leading women practitioners in the Intellectual Property field while earning MCLE credit. The panelists will discuss topics such as strategies for success; how the intellectual property field has changed; reaching equality in compensation; developing a client base; creating mentoring relationships; and achieving a balance between home and work.

Please join us for cocktails/hors d'oeuvres from 5:00 p.m. – 6:00 p.m.; MCLE program (2 credits in skills) from 6:00 p.m. – 8:00 p.m. and dessert at 8:00 p.m. For further information go to www.nysba.org/ipl and click on Upcoming Programs and Events, or contact cteeter@nysba.org.

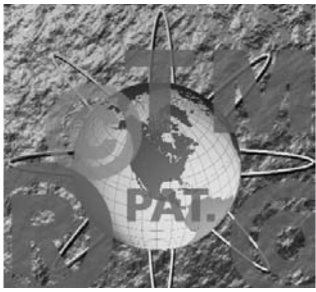
Trade Winds

Trade Winds offers Section members a way to keep up on the comings and goings of their colleagues and upcoming events of interest. Has there been a change in your practice? Any recent or forthcoming articles or lecture presentations? Won any awards recently? Please e-mail submissions to Jonathan Bloom at jonathan.bloom@weil.com.

The Intellectual Property Law Section of the New Hampshire Bar Association elected Peter J. Gardner chair for 2004-2005 at the section's annual elections, held on March 11 at the Franklin Pierce Law Center in Concord, N.H. Mr. Gardner, a contributor to this publication, is an attorney with Stebbins Bradley Harvey & Miller in Hanover, N.H., and St. Johnsbury, Vt. He is a Visiting Scholar at the Tuck School at Dartmouth College and a Research Fellow at Vermont Law School.

Welcome New Members:

Donald R. Adair
Gregory Allen
Jennifer R. Amore
David P. Badanes
Steven R. Bartholomew
Christopher D. Beatty
Kafui Bediako
Rudolph G. Behrmann
Peter V. Betaneli
Joel I. Binstok
Jessica Sarah Blatt
Umberto C. Bonavita
Andrew Bondarowicz
Laural Sabrina Boone
Rebecca Borden
Richard Boyd
Courtney Hope Bragar
David Breau
Nathaniel B. Buchek
Evan Michael Bundis
Michael A. Burke
Andre K. Burrell
Daniel N. Calder
Barbara Cannova
Anthony B. Caravella
Vincent A. Carbonell
J. Patrick Carley
Kwang Yup Chae
Heather Champion
Kendall J. Champion
Alex C. Chang
Dina Chelst
Sanjana Chopra
Jason Craig Chumney
Alyssa Clark
Scott Alan Clark
Michael J. Comerford
Julie Harkness Cooke
Christopher E. Copeland
Elizabeth Cuccinello
Dexter C. Cummings
Emily Alexa Danchuk
Brian Danitz
Clarence S. Darrow
Tanguy De Carbonnieres
James C. De Francisco
Alison DeGregorio
Sonya Del Peral
Ashton J. Delauney
Ibukun A. Dele-Michael
Francis Greaves Depeiza
Victor DeVito
Lisa A. Dixon
Michael H. Dolan
Dipu Ashvin Doshi
Daniel P. Duthie
Richard R. Eckman
David A. Ehrlich
Laurie Beth Emmer
Alexander Peter Errico
Raymond E. Farrell
Amy Gail Feinsilver
Mitchell S. Feller
Zhen Feng
Deborah Lauren Fine
Matthew Finkelstein
Scot Fisher
Brian R. Fitzgerald
Janet Fries
Gustavo Fuentes
Kelly J. Garrone
Janine D. Geraigery
Cameron W. Gilbert
Paula Gilbert
Christopher J. Glancy
David J. Glinert
Ronald S. Goldbrenner
Adam Goldstein
Natalia Golysheva
Chevenne G. Gordon
Todd David Gorman
Theodore A. Gottlieb
Evan C Gourvitz
Sadia Nell Graham
Stefan Grant
Richard B. Gross
Margaret J. Gwiazda
Myriah Aleah Habeeb
John Xavier Haberman
John S. Hall
Kevin Hamel
Patricia Ann Harley
Matthieu V. Hausig
Carol E. Heckman
Jeanne Heffernan
Susan Christine Henry
Elodie Herbel
Bess S. Hilliard
Pamela Hirschman
Hal E. Hisey
Omer Hiziroglu
Robert S. Hoff
Samuel B. Hudson
Michael F. Hurley
Christine A. Ingraham
Oleg A. Ioselevich
Katharina E. Isenburg
Akihiro Itoh
Rachael M. Jackson
David Jacobson
Howard R. Jaeger
Melissa A. James
Chad A. Jerome
Sui Jim
Noreen C. Johnson
Jennifer Marie Jordan
Matthias A. Kamber
Daniel Steven Kaplan
Lucy Kats
Amy L. Katz
Brian W. Kemper
Robert J. Kiggins
Sunny S. Kim
Donald Klimoski
Adam E. Kraidin
Lewis J. Kreisler
Anne M. Krepshaw
Lars Kroener
Gaston Kroub
John L. LaBarre
Etai Y. Lahav
Jason A. Lambright
David M. Lange
Blossom B. Lefcourt
Richard M. Lehrer
Erik John Levin
Michael A. Levine
Brett E. Lewis
Lance J. Lieberman
Jeffrey Lindenbaum
Xin Liu
Jennifer Lobaito
Blossom E. Loo
Joyce Wing Yee Luk
Joel E. Lutzker
Quyen Vu Ha Luu
Vivian A. Maese
Walter J. Malinowski
Christopher Marston
Carol S. Maue-Semans
Mark F. McElreath
Mark E. McGrath
Ann Hillam McGraw
Bruce J. McKeegan
Deena R. Merlen
Karen J. Messick
Christopher Miller
Larry B. Miller
Svetlana Mirkis
Jessica Mishali
Akiko Miyake-cherry
John Moehringer
William M. Mooney
Matthew B. Moses
Kentaro Murata
Faiza Muzaffar
Preeti Narayan
Aliya Jovan Nelson
Thomas A. Neyarapally
Njeri Nginyo
Nikitas E. Nicolakis
James P. Nolan
David W. Novak
Contessa E. Nyree
Bridgid Clarke O'Connor
Jonathan Oblak
Antonio J. Otero
David B. Palinsky
Michael D. Pantalony
La-Verne Parris
Keenan R. Popwell
James Prizant
Michael W. Quinn
Marc J. Rachman
Robyn Joy Rahbar
Simon Ramone
Ruixue Ran
David Rappaport
Joel S. Ray
John Hurrell Reilly
Jordan L. Reitzfeld
Vanessa Riviere
Fabien A. Robley
Frank D. Rodriguez
Christopher S. Ronk
Stacie L. Ropka
Tova R. Rosenberg
Adam H. Rosenblum
Thomas Rosselli
Shaomei Ruan
Jessica S. Rutherford
Ira S. Sacks
Stephen Salad
Laura A. Saltarelli
Ian J. Saltmer
Charan J. Sandhu
Jun Sato
Ana Marisa Schattner
Debra M. Schoenberg
Ainslee Ann Schreiber
A. Cassidy Sehgal-Kolbet
Peter J. Shatzkin
Robert L. Sherman
Cathy E. Shore-Sirotin
Prabhat Shroff
Hayden Leigh Silets
Julian Singer
Kenneth J. Sodaro
Matthew S. Solmon
Salvatore P. Spezio
Nancy Stillman
Cynthia-Clare Tagoe
Jessica Taran
Joy Tassin
William R. Thornewell
Bhaskar Tirumala-Kumara
Eric Tobias
Jaime L. Turton
Ricardo Unikel
Hirotaka Uranaka
Elizabeth Van Etten
Rainieri G. Ventura
Denise J. Vista
Hans-Ueli (Jack) Vogt
Morris Waisbrot
Steven Ian Wallach
Yuko Watanabe
Charles T. J. Weigell
Karen E. Weinberger
Steven Louis Wiser
Mitchell M. Wong
Karen Wuertz
Siok Kiang Fiona Yeo
Andrew F. Young
Jason R. Young
Giuseppe Zaccagnini
Irena Zolotova
Keith A. Zullow



2004 Calendar of Events

Intellectual Property Law Section

April

April 1, 2004
"The Copyright Office Comes to New York"— All Day Program
In conjunction with the Intellectual Property Law Section and the Cardozo Arts & Entertainment Law Journal
The Benjamin N. Cardozo School of Law, 55 Fifth Avenue, Moot Court Room, NYC
8:00 am – 5:00 pm
5:00 pm – 6:30 pm
Cocktail Reception & Hors D'oeuvres
MCLE Credits: 7.0
Contact: cteeter@nysba.org

April 20, 2004
Internet Law Committee Meeting
Jones Day, 1155 Avenue of the Americas, 22nd Fl., NYC
12:00 pm – 2:00 pm
Contact: npitts@nysba.org

April 29, 2004
MCLE ROUNDTABLE: "Enforcement of IP Rights in the Middle East and Asia"
Location and Time: tba
Sponsored by Rouse & Co. International
Contact: cteeter@nysba.org

May

May 3, 2004
Patent Law Committee Meeting
Location and Time: tba
Contact : npitts@nysba.org

May 11, 2004
Technology Transfer & Licensing Committee and Trade Secrets Committee—Joint Meeting
Paul Hastings Janofsky & Walker, LLP, 75 East 55th St., NYC
12:00 pm – 2:00 pm
Contact: npitts@nysba.org

May 18, 2004
Internet Law Committee Meeting
Jones Day, 1155 Avenue of the Americas, 22nd Fl., NYC
12:00 pm – 2:00 pm
Contact: npitts@nysba.org

May 19, 2004
International Issues Committee Meeting
Location and Time: tba
Contact: rmantle@reitlerbrown.com

May 28, 2004
Trademark Law Committee Meeting
Hartman & Craven, LLP, 488 Madison Avenue, 16th Fl., NYC
12:00 pm – 1:30 pm
Contact: dbenitez@hartmancraven.com

June

June 2, 2004
Women in Intellectual Property Law
Thelen, Reid & Priest, LLP, 875 3rd Avenue, NYC
5:00 pm – 8:45 pm
Sponsored by Thelen, Reid & Priest, LLP and Thomson & Thomson
MCLE Credits: 2.0
Contact: cteeter@nysba.org

June 15, 2004
Internet Law Committee Meeting
Jones Day, 1155 Avenue of the Americas, 22nd Fl., NYC
12:00 pm – 2:00 pm
Contact: npitts@nysba.org

June 16, 2004
Copyright Law Committee Meeting
"Annual Review: The Year in Copyright Law"
Cowan Liebowitz & Latman, P.C.,
1133 Avenue of the Americas, NYC
12:00 pm – 2:00 pm
Contact: npitts@nysba.org

June 22, 2004
MCLE ROUNDTABLE: "Royalties Part II"
Yale Club, 50 Vanderbilt Avenue at 44th Street, NYC
8:00 am – 10:45 am
Sponsored by Berdon LLP
MCLE Credits: 2.0
Contact: cteeter@nysba.org

July

July 20, 2004
Internet Law Committee Meeting
Jones Day, 1155 Avenue of the Americas, 22nd Floor, NYC
12:00 pm – 2:00 pm
Contact: npitts@nysba.org

July 20, 2004
Patent Law Committee Meeting
Location and Time: tba
Contact: npitts@nysba.org

August

August 3, 2004
MCLE ROUNDTABLE: "Inequitable Conduct: Front Line Defense to Inequitable Conduct"
Ostrolenk Faber Gerg & Soffen, LLP, 1180 Avenue of the Americas, NYC
Time: 12:00 pm
Sponsored by Ostrolenk Faber Gerb & Soffen, LLP
Contact: cteeter@nysba.org

September

September 8, 2004
Copyright Law Committee Meeting
"Cutting Edge and Breaking Issues in Copyright Law"
Sills Cummis Epstein & Gross, P.C., 399 Park Avenue, NYC
Time: tba
Contact: npitts@nysba.org

September 14, 2004
MCLE ROUNDTABLE: "Bridging Opposing Views on the Value of Intellectual Property"
McGraw Hill Building, 1221 Avenue of the Americas, 50th Fl., NYC
Time: 12:30 pm – 2:30 pm
MCLE Credits: 2.0
Sponsored by Standard & Poor's
Contact: cteeter@nysba.org

September 21, 2004
"Bridge the Gap: Intellectual Property" (Long Island)
Location and Time: tba
Program Chairperson: Marc Ari Lieberstein, Esq., Ostrolenk Faber Gerb & Soffen, LLP, 1180 Avenue of the Americas, NYC
Contact: cleregistrar@nysba.org

September 21, 2004
Internet Law Committee Meeting
Jones Day, 1155 Avenue of the Americas, 22nd Fl., NYC
12:00 pm – 2:00 pm
Contact: npitts@nysba.org

September 28, 2004
Trademark Law Committee Meeting
Hartman & Craven, LLP, 488 Madison Avenue, 16th Fl., NYC
12:00 pm – 1:30 pm
Contact: dbenitez@hartmancraven.com

September 28, 2004
"Bridge the Gap: Intellectual Property" (Rochester)
Location and Time: tba
Program Chairperson: George R. McGuire, Esq.,
Bond, Schoeneck & King, PLLC, One Lincoln Center, Syracuse
Contact: cleregistrar@nysba.org

October

October 7-10, 2004
Fall Meeting at Lake George
The Sagamore, Bolton Landing
Contact: cteeter@nysba.org

October 19, 2004
"Bridge the Gap: Intellectual Property" (NYC)
Location and Time: tba
Program Chairperson: Victoria A. Cundiff, Esq., Paul Hastings Janofsky & Walker, LLP, 75 East 55th Street, NYC
Contact: cleregistrar@nysba.org

October 26, 2004
"Bridge the Gap: Intellectual Property" (Albany)
Location and Time: tba
Program Chairperson: Susan E. Farley, Esq., Heslin Rothenberg Farley & Mesiti PC, 5 Columbia Circle, Albany
Contact: cleregistrar@nysba.org

October 26, 2004
"Bridge the Gap: Intellectual Property" (Buffalo)
Location and Time: tba
Program Chairperson: Daniel Oliverio, Esq., Hodgson Russ, LLP, One M & T Plaza, Suite 2000, Buffalo
Contact: cleregistrar@nysba.org

November

November 4, 2004
"Bridge the Gap: Intellectual Property" (Syracuse)
Location and Time: tba
Program Chairperson: Harold L. Burstyn, Esq., 216 Bradford Parkway, Syracuse
Contact: cleregistrar@nysba.org

November 11, 2004
MCLE ROUNDTABLE: "IP Valuation in Business Transactions and Litigation"
World Financial Center, NYC
Time: tba
Sponsored by Deliotte & Touche
Contact: cteeter@nysba.org

November 16, 2004
Internet Law Committee Meeting
Jones Day, 1155 Avenue of the Americas, 22nd Fl., NYC
12:00 pm – 2:00 pm
Contact: npitts@nysba.org

November 17, 2004
Copyright Law Committee and Entertainment, Arts and Sports Law/Fine Arts
Location and Time: tba
Contact: npitts@nysba.org

December

December 21, 2004
Internet Law Committee Meeting
Jones Day, 1155 Avenue of the Americas, 22nd Fl., NYC
12:00 pm – 2:00 pm
Contact: npitts@nysba.org

December 22, 2004
Patent Law Committee Meeting
Location and Time: tba
Contact: npitts@nysba.org

January

January 25, 2005
SAVE THE DATE—
Annual Meeting of the Intellectual Property Law Section
New York Marriott Marquis, 1535 Broadway, NYC
Contact: lcastilla@nysba.org

Don't forget!

Submission deadline for the 2004 Law Student Writing Contest is Novemeber 4, 2004

For more information go to
www.nysba.org/ipl

MEMBERSHIP APPLICATION
New York State Bar Association:

INTELLECTUAL PROPERTY LAW SECTION

Membership in the New York State Bar Association's Intellectual Property Law Section is a valuable way to:

- enhance professional skills;
- keep up-to-date with important developments in the legal profession;
- join colleagues in exciting Section events.

OPPORTUNITIES FOR EDUCATION

The Intellectual Property Law Section offers both the experienced and novice practitioner excellent opportunities to enhance their practical and legal knowledge and expertise. Through Section activities, including conferences on intellectual property (an annual fall event), members may examine vital legal developments in intellectual property law. The Section's Web site provides current information regarding Section events and offers "members only" access to current issues of *Bright Ideas* and current Committee bulletins providing updates on intellectual property law. The Section plans to sponsor continuing legal education (CLE) credit-bearing programs for Section members at reduced rates. Recent programs offered by the Section related to computer software and biotechnology protection, conducting intellectual property audits, and practical considerations in trade secret law. The Section sponsors an annual Intellectual Property Law writing contest for New York State Law Students.

OPPORTUNITIES FOR PROFESSIONAL DEVELOPMENT

Intellectual Property Law Section committees address unique issues facing attorneys, the profession and the public. The Section offers opportunities to serve on committees such as Patent Law; Trademark Law; Copyright Law; Internet Law; Trade Secrets; Technology, Transfer and Licensing and Young Lawyers.

Committees allow you to network with other attorneys from across the state and give you the opportunity to research issues and influence the laws that can affect your practice. Committees are also an outstanding way to achieve professional development and recognition. Law students are automatically members of the Young Lawyers Committee. Section members may join more than one committee.

A VOICE IN THE ASSOCIATION

The Intellectual Property Law Section takes positions on major professional issues that affect practitioners and advocates those positions within the New York State Bar Association, the legislature, and the public.

See page 53 to become a member of the Intellectual Property Law Section

COMMITTEE ASSIGNMENT REQUEST

Please designate, from the list below, those committees in which you wish to participate. For a list of Committee Chairs and their e-mail addresses, please refer to page 55 of this issue.

___ Copyright Law (IPS1100)

___ Internet Law (IPS1800)

___ International Intellectual Property Issues (IPS2200)

___ Patent Law (IPS1300)

___ Technology, Transfer and Licensing (IPS1400)

___ Trade Secrets (IPS1500)

___ Trademark Law (IPS1600)

___ Young Lawyers (IPS1700)

Please e-mail your committee selection(s) to Naomi Pitts at: npitts@nysba.org

* * *

To be eligible for membership in the Intellectual Property Law Section, you first **must** be a member of the NYSBA.

❐ As a member of the NYSBA, I enclose my payment of $30 for Intellectual Property Law Section dues. (Law student rate: $15)

❐ I wish to become a member of the NYSBA and the Intellectual Property Law Section. I enclose both an Association and Section application with my payment.

❐ Please send me a NYSBA application. No payment is enclosed.

Name ______________________________

Office ______________________________

Office Address ______________________________

Home Address ______________________________

E-mail Address ______________________________

Office Phone No. ______________________________

Office Fax No. ______________________________

Home Phone No. ______________________________

Please return payment and application to:

Membership Department
New York State Bar Association
One Elk Street
Albany, New York 12207
Telephone: 518/487-5577
FAX: 518/487-5579
http://www.nysba.org

ANNOUNCING THE

Intellectual Property Law Section's

ANNUAL LAW STUDENT WRITING CONTEST

To be presented at the **Annual Meeting of the Intellectual Property Law Section, January 25, 2005, New York, NY** to the authors of the best law-review-quality articles on subjects relating to the protection of intellectual property **not published elsewhere, scheduled for publication or awarded a prize.**

First Prize: $2,000 Second Prize: $1,000

CONTEST RULES

To be eligible for consideration, the paper must have been written solely by a student or students in full-time attendance at a law school (day or evening) located in New York State or by an out-of-state law student or students who are members of the Section. One hard copy of the paper and an electronic copy in Word format on a 3.5" H.D. disk must be submitted by mail, postmarked not later than **November 4, 2004**, to each of the persons named below. As an alternative to sending the disks, the contestant may e-mail the electronic copies, provided that they are e-mailed before 5:00 p.m. EST, **November 4, 2004**. Papers should be no longer than 35 pages, double-spaced, including footnotes. Submissions must include one file with a cover page indicating the submitter's name; law school and expected year of graduation; mailing address; e-mail address; telephone number; and employment information, if applicable.

Send entries to:

and:

Victoria A. Cundiff
Paul, Hastings, Janofsky & Walker LLP
75 East 55th Street
New York, NY 10022
(212) 318-6030
(e-mail:victoriacundiff@paulhastings.com)

Kelly Slavitt
Thelen Reid & Priest LLP
875 Third Avenue
New York, NY 10022
(212) 603-6553
(e-mail: kslavitt@thelenreid.com)

Reasonable expenses will be reimbursed to the author of the winning paper for attendance at the Annual Meeting to receive the Award.

Please direct any questions to Kelly Slavitt.

Law Student Writing Contest Winners

2000

First Prize:	Michael J. Kasdan New York University School of Law
Second Prize:	David R. Johnstone SUNY Buffalo School of Law
Third Prize:	Donna Furey St. John's University School of Law
Hon. Mention:	Darryll Towsley Albany Law School

2001

First Prize:	Maryellen O'Brien SUNY Buffalo School of Law
Second Prize:	Safia A. Nurbhai Brooklyn Law School
Third Prize:	Stephen C. Giametta St. John's University School of Law

2002

First Prize:	Deborah Salzberg Fordham Law School
Second Prize:	David V. Lampman, II Albany Law School
Hon. Mention:	Larry Coury Fordham Law School

2003

First Prize:	Christopher Barbaruolo Hofstra School of Law
Second Prize:	Anna Kingsbury New York University School of Law

The Section reserves the right not to consider any papers submitted late or with incomplete information.

Section Committees and Chairs

The Intellectual Property Law Section encourages members to participate in its programs and to contact the Section officers or Committee Chairs for information.

Committee on Copyright Law
Jeffrey Barton Cahn (Co-Chair)
Sills Cummis et al.
The Legal Center
Newark, NJ 07102
Tel.: (973) 643-5858
Fax: (973) 643-6500
e-mail: jcahn@sillscummis.com

Robert W. Clarida (Co-Chair)
Cowan, Liebowitz & Latman
1133 Avenue of the Americas
New York, NY 10036
Tel.: (212) 790-9200
Fax: (212) 575-0671
e-mail: rwc@cll.com

Committee on International Intellectual Property Law Issues
Raymond A. Mantle (Chair)
1050 Riverside Avenue
Jacksonville, FL 32204
e-mail: rmantle@reitlerbrown.com

Committee on Internet Law
Rory J. Radding (Co-Chair)
Jones Day
222 East 41st Street
New York, NY 10017
Tel.: (212) 790-6511
Fax: (212) 869-8864
e-mail: rjradding@jonesday.com

Peter Szendro (Co-Chair)
Willis Re., Inc.
One Wall Street Plaza
88 Pine Street
New York, NY 10005
Tel.: (212) 820-7693
Fax: (212) 898-5102
e-mail: peter.szendro@willis.com

Committee on Meetings
Jeffrey Barton Cahn (Co-Chair)
Sills Cummis et al.
The Legal Center
Newark, NJ 07102
Tel.: (973) 643-5858
Fax: (973) 643-6500
e-mail: jcahn@sillscummis.com

Paul Fakler (Co-Chair)
Baker Botts, LLP
30 Rockefeller Plaza
New York, NY 10112
Tel.: (212) 408-2581
Fax: (212) 259-2581
e-mail: paul.fakler@bakerbotts.com

Committee on Membership
Michael I. Chakansky (Chair)
56 Stuart Place
Oradell, NY 07649
Tel.: (917) 767-3922
Fax: (201) 576-9190
e-mail: mic@pipeline.com

Committee on Patent Law
Philip Furgang (Co-Chair)
Furgang & Adwar, LLP
Two Crosfield Avenue, Suite 210
West Nyack, NY 10994
Tel.: (845) 353-1818
Fax: (845) 353-1996
e-mail: philip@furgang.com

Philip A. Gilman (Co-Chair)
Willkie Farr
787 Seventh Avenue
New York, NY 10019
Tel.: (212) 728-8000
Fax: (212) 728-8111
e-mail: pgilman@willkie.com

Committee on Technology, Transfer and Licensing
Neil A. Baumgarten (Co-Chair)
1885 Cynthia Lane
Merrick, NY 11566
Tel.: (516) 868-6617
Fax: (516) 868-7666
e-mail: nsbaumg@aol.com

Walter J. Bayer, II (Co-Chair)
28 Tracey Drive
Lawrenceville, NJ 08648
e-mail: bayerw@comcast.net

Committee on Trademark Law
Debra Ivy Resnick (Chair)
Hartman & Craven LLP
488 Madison Avenue, 16th Floor
New York, NY 10022
Tel.: (212) 836-4971
Fax: (212) 688-2870
e-mail: dresnick@hartmancraven.com

Committee on Trade Secrets
Victoria A. Cundiff (Chair)
Paul Hastings et al.
75 East 55th Street
New York, NY 10022
Tel.: (212) 318-6030
Fax: (212) 339-9150
e-mail:
victoriacundiff@paulhastings.com

Committee on Young Lawyers
Vejay G. Lalla (Co-Chair)
Fross Zelnick et al.
866 United Nations Plaza
New York, NY 10017
Tel.: (212) 813-5900
Fax: (212) 813-5901
e-mail: vlalla@frosszelnick.com

Kelly Slavitt (Co-Chair)
Thelen Reid & Priest LLP
875 Third Avenue
New York, NY 10022
Tel.: (212) 603-6553
Fax: (212) 603-2001
e-mail: kslavitt@thelenreid.com

Submission of Articles

Anyone wishing to submit an article, announcement, practice tip, etc., for publication in an upcoming issue of *Bright Ideas* is encouraged to do so. Articles should be works of original authorship on any topic relating to intellectual property. Submissions may be of any length.

Submissions should preferably be sent by e-mail to Jonathan Bloom, Editor-in-Chief, at the address indicated on this page. Submissions for the Fall 2004 issue must be received by June 11, 2004.

BRIGHT IDEAS

Bright Ideas is a publication of the Intellectual Property Law Section of the New York State Bar Association. Members of the Section receive a subscription to the publication without charge. Each article in this publication represents the author's viewpoint and not that of the Editors, Section Officers or Section. The accuracy of the sources used and the cases, statutes, rules, legislation and other references cited is the responsibility of the respective authors.

ISSN 1530-3934

NYSBA
Intellectual Property Law Section
New York State Bar Association
One Elk Street
Albany, NY 12207-1002

ADDRESS SERVICE REQUESTED

NON PROFIT ORG.
U.S. POSTAGE
PAID
ALBANY, N.Y.
PERMIT NO. 155