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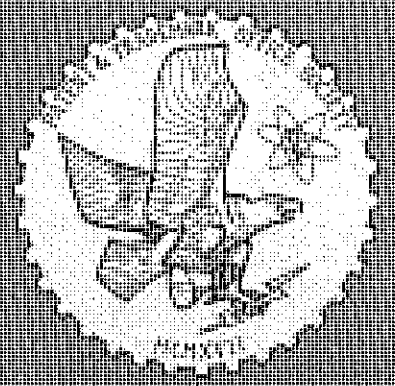

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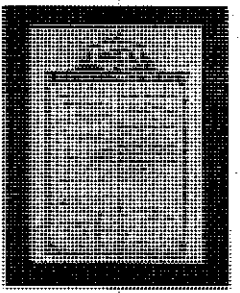

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Jefferson's patent bill are challenged, and an analysis of his bill is provided. The content of the first pamphlet published in 1792 with respect to the patent system and the changes being proposed in the patent law is reviewed.

Part 8 compares the law created by the Acts of 1790 and 1793 and also compares the American statutory patent law with the English common law of patents as they existed at the end of the eighteenth century. Part 9 provides a detailed overview of administrative practice under the Act of 1793 during the 43 years of its existence. Part 10 is devoted to one particular aspect of that administrative practice, namely, the secrecy issue that arose for several decades while William Thornton was Superintendent of Patents.

Perspectives, public and private, on the patent system as it existed during the first part of the nineteenth century are the subject of Part 11. Part 12 reports the background of the judicial system against which the patent case law developed. It sets forth all the reported patent cases through 1835 and briefly discusses the interesting fact that a substantial majority of all circuit court patent cases to 1836 were decided by only two Supreme Court justices in their capacities as circuit judges.

In view of the defects inherent in the Act of 1793 it is remarkable that the Congress chose to make as little change in it as it did over the 43-year period of its existence. Part 13 reviews the various memorials and petitions seeking public and private enactments pertaining to the patent law and the congressional action and inaction that resulted. The background and consequences of the most notorious private patent legislation during the era of registration, the Act for the Relief of Oliver Evans, are delineated.

Parts 14 and 15 are devoted to a review of judicial interpretation under the Act of 1793 of the meaning to be given to novelty and the role of the specification in defining the scope of invention and providing the required enabling disclosure. Particular attention is given to a showing of how and the extent to which that interpretation differed from the corresponding common law interpretation. Finally, Part 16 discusses the immediate background against which the Patent Act of 1836 was enacted and summarizes the major portions of that Act.

purpose of the patent system at the beginning of the nineteenth century, and much judicial interpretation and administrative practice was predicated on this point of view.[52]

J. *Title and Scope of This Work*

The title to this work deliberately does not include the term "science." Although commentators and judicial opinions came rather quickly to view the purpose of the patent system as "to promote the progress of science and useful arts," this was not the way that either the Framers or the first federal congresses perceived the matter. Rather, to them the intellectual property clause clearly encompassed two separate powers packaged together; one to promote the progress of science, i.e., knowledge, through the exclusive grant known as a copyright, and the other to promote the progress of useful arts through the exclusive grant known as a patent. Thus the titles to the first two organic patent acts refer only to the useful arts and do not mention science.[53]

This work is organized generally although not completely along a chronological sequence. Where appropriate, there are parts dealing with particular topics interspersed in the chronological sequence which depart from the overall time line from 1787 to 1836, although in most instances they have their own internal time line. No attempt has been made to prioritize between substantive legal issues and administrative practice which is addressed as a part of the overall discussion of the two organic patent acts.

Part 2 sets forth the immediate background against which the intellectual property clause of the Constitution was developed and addresses how and why there came to be an intellectual property clause as well as its unique nature among all the powers granted to the Congress in being the only one to set forth a specific means for exercising the particular power granted. It also looks to the origin of the language used therein.

Part 3 reviews early comment and interpretation with respect to the intellectual property clause, beginning with preratification commentary and then turning to the ambiguous nature of certain of the words used in the clause, in particular the word "securing." It suggests that the grammatical form of the intellectual property clause is important, because the aesthetics of the form may have in no small measure in-

52 As will be seen in Parts 9 and 10, William Thornton, the first Superintendent of Patents from 1802 to 1828, strongly believed that the patent system was intended primarily to reward and protect the interest of inventors.

53 The term "science" does not appear at all in the Patent Act of 1790 and occurs only once in the Patent Act of 1793, which refers to a "person skilled in the art or science."

of the almost 10,000 patents issued during the era of registration were invalid and not infrequently fraudulently used.

Any attempt to define clear transition points in the development of the patent law in the United States must to some degree be arbitrary, but the Act of 1793 meets several convenient criteria. First of all, it represents a clearly defined change in the nature of the patent system to be implemented, a change from examination to registration. Secondly, the registration system set up by it would continue—with some statutory variations—in existence for the next forty three years. Finally, there was no published case law concerning it for the remaining seven years in the eighteenth century. This last may seem a peculiar criterion, but it permits a convenient cut off between the eighteenth and nineteenth centuries, and an ease of comparison between the British and the American patent customs as they existed at the end of the eighteenth century and before they transitioned into true patent systems in the first half of the nineteenth century.

The phrase "patent custom" is used advisedly for what was true in England and Great Britain was also true in the United States. There had yet to fully develop either the uniform administrative practice nor the consonant legal principles applicable under a rule of law which properly define a true "patent system."[48] Yet substantial efforts to develop the necessary legal framework had commenced in both countries and semblances of what would become their patent systems were apparent. It is not too much to say that as of 1800 the transition from patent custom to patent system was well and truly underway in both countries, albeit along somewhat different lines.

H. *Case Law and Commentary*

Although there were earlier cases decided, the first reported patent case in the United States is dated 1804. From then through 1835 some 58 such cases are reported or referenced from other than the Supreme Court and ten from the Supreme Court. Of the 58 lower-court cases, a remarkable forty were decided by two Supreme Court justices sitting as circuit court judges. In other words, most of the reported judicial interpretation of the Patent Act of 1793 was by two individuals, Justice Bushrod Washington and Justice Joseph Story. It would be the reported

48 See notes 2 and 3, *supra*. As late as 1826 an American commentator would strongly question whether a patent "system" yet actually existed in the United States. See P. A. Browne, *Mechanical Jurisprudence—No. 7*, 2 The Franklin Journal and American Mechanic's Magazine 19, 21 (1826) ("From this chaos, to call forth a system, is a task requiring labour and perseverance.").

custom in the Italian city states, every European state which had adopted that custom had required only that the subject matter for which the limited-term exclusive grant was given be new within its borders. It mattered not whether the art, industry, or technology had been practiced elsewhere. Indeed a primary purpose of the development of the European patent custom had been to encourage the introduction or importation of new industry or technology into the country from those places where it had been successfully practiced.[40]

The United States, however, would become the first country wherein novelty, or more correctly the type of anticipation that precludes novelty and hence patentability, would be predicated on what was known or used not merely within its borders but anywhere in the world. That the United States should take this approach was all the more remarkable because it occurred at a time when the new nation desperately needed to develop a manufacturing base through the transfer of technology from Europe and particularly Great Britain. Yet the Congress in enacting the Patent Act of 1790 deleted provisions which would have expressly authorized patents of importation. The statutory language was sufficiently ambiguous, however, that it would take several decades before judicial interpretation firmly established that novelty meant new anywhere in the world and not merely in the United States.

Meshbesher states that "the 1790 Act was probably the most comprehensive attempt at patent codification that had been seen up to that date."[41] It was in fact the first attempt at codification of a major portion of the English practice and interpretation, but, as has been noted, it departed in certain significant ways from the English patent custom and common law and thus cannot be argued to be a true codification of that custom and law.[42] Nonetheless, there can be no dispute that it represented the most comprehensive statutory framework of both substantive and procedural patent law that had ever been attempted.

G. *The End of the Beginning*

The Patent Act of 1793 marked the end of the beginning in the evolution of the United States patent law. An examination system had

40 For a detailed discussion on the European—and particularly the English—perspective on novelty into the nineteenth century, see E. C. Walterscheid, *Novelty in Historical Perspective (Part I)*, 75 J.P.T.O.S. 689 (1993).

41 78 U.S.P.T.O. at 595.

42 Indeed, Meshbesher acknowledges that "[o]ne could hardly characterize this comprehensive statutory scheme enacted by the First Congress in 1790 as a mere codification of a common law of patents, be it American common law, English common law, or some combination of the two." See 78 J.P.T.O.S. at 611.

It is apparent that the reported case law in the common law courts only began to develop in the last third of the eighteenth century. But a significant number of patent cases were unreported.[30] The net result was considerable uncertainty as to the nature of the patent law.[31] If the knowledge of the common law of patents was uncertain in England, that uncertainty was compounded in the United States. It is highly unlikely that the Framers were familiar with the common law patent cases that had been decided to 1787,[32] but a majority of them were either lawyers or had some training in the law and thus were knowledgeable about the language of the Statute of Monopolies.

A second source of antecedent information for the Framers would have been the patent custom as practiced during the colonial period and by the states. That custom in the colonies—such as it was—came to be predicated largely on the activities of local assemblies and legislatures which, "while not formally invested with such sovereign power, readily assumed the authority in practice."[33] After the Revolution, the state assemblies and legislatures—taking up where their colonial predecessors had left off—continued to exercise this self-assumed authority.[34]

30 In 1787, Justice Buller stated that "[m]any cases upon patents have arisen within our memory." Turner v. Winter, 1 T. R. at 606, 99 Eng. Rep. at 1207. Likewise, in 1795, Chief Justice Eyre stated "we have had many cases upon patents." Boulton v. Bull, 2 H. Bl. at 491, 126 Eng. Rep. at 665. There is no contemporaneous information to indicate exactly how many cases both were referring to. However, Oldham has published the trial notes of Lord Mansfield which reveal the existence of ten unreported common law patent cases tried before Mansfield during the period 1766–1783, nine at Middlesex and one in London. He also states that "many cases [on a variety of subjects] were altogether unreported (either because of a delay in printing the reports, because there was no reporter in court, or because of the selectiveness of the cases chosen by the reporter for publication)." See James Oldham, 1 The Mansfield Manuscripts and the Growth of English Law in the Eighteenth Century (Chapel Hill 1992) at 104 and 723–769. The patent cases from Mansfield's notes are briefly summarized at John Adams, *Intellectual Property Cases in Lord Mansfield's Court Notebooks*, 18 J. Leg. Hist. 18 (1986).

31 As stated by Dutton, "[f]ew cases meant few precedents, and few precedents generally meant uncertainty." Patent System at 70. This statement is clearly correct if it is applied to reported cases, for the unreported cases provided no precedent whatever for the general public or even for other judges.

32 Only one of them, James Madison, has left any documentary record evincing any knowledge of the common law of patents, and that record is so cursory as give little evidence as to what Madison actually knew. See Part 3 of this work.

33 E. G. Inlow, The Patent Grant (Baltimore 1950) at 36.

34 Although reference is frequently made to colonial and state "patents," it is important to note that the individual grants of limited-term monopoly rights made by the colonial legislatures and assemblies with respect to both importation and invention, while having certain of the attributes of letters patents were not patents per se, and were never held out to be such. During the colonial period it was clearly understood that a grant of letters patent fell solely and uniquely within the royal prerogative. While the colonial grant might be quite similar to the royal letters patent, it could never be called such because that would be to usurp the royal prerogative. Perhaps as a holdover from the colonial custom, the early state grants before enactment of a federal patent law

has been pointed out, the legal forms of letters patent, at least in the English context, were not only time-honored but time-worn.[23] But what exactly was the "patent custom" known to the Framers and embodied in the first Patent Act?

Simply put, it was the practice of the state giving some form of limited-term monopoly privilege to engage in a new trade or craft, sometimes denominated an industry, to that person or persons responsible for introducing it into the state. The privilege consisted of a temporary and exclusive right to exploit the subject matter, either invention or importation, covered by the grant.

It is important to recognize that the patent custom known to the Framers involved privileges rather than property rights. The distinction between a patent privilege and a patent property right is important, and not always recognized in the early literature on patent law. Nonetheless, inventors, who had the most practical interest in the matter, were increasingly aware of the distinction, and in the eighteenth century began to argue that they had a natural, inherent property right in their inventions which it was the obligation of the state to protect.

Patent law and patent systems developed out of a realization that there was indeed a societal need to both recognize and protect a property right with respect to invention (as opposed to a privilege), although for reasons having very little to do with any perceived "natural law" right.[24] This realization was only beginning to come into full flower in England at the time that the United States transitioned to a federal form of government. Because Great Britain was the mother country and its laws were most familiar to the new nation, it is not surprising that the United States in developing its own law pertaining to property right in the monopoly grant should look to the law pertaining to the patent privilege in England.[25]

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23 F. D. Prager, *Historic Background and Foundation of American Patent Law*, 5 Am. J. Leg. Hist. 309 (1961).

24 In 1791 France became the first and only country to enact a patent statute providing a property right in invention as of natural right. As enacted on January 7, 1791, this statute provided:

> The National Assembly, considering that any new idea, the manifestation or development of which may become useful to society, belongs basically to the one who has conceived it, and that it would be a violation of the Rights of Man, in their essence, not to regard an industrial discovery as property of its author * * * decrees as follows: 1. Any discovery or new invention, in any kind of industry, is the property of its author.

See F. D. Prager, *A History of Intellectual Property From 1545 to 1787*, 26 J.P.O.S. 711, 756–57 (1944). Four years later, France would back off from this view that the Rights of Man require an invention to be considered as the property of the inventor, and no other country would espouse the view that an inventor has a natural, inherent property right in his or her invention.

25 The term "property right" as used herein involves the limited term exclusive right with regard to the invention as opposed to a property right in the invention itself. The distinction is an

limit those rights by what was in essence a delegation by the people of a major portion of those rights to a national government.[17]

This then is a part of the unique nature of the U.S. Constitution, drafted and ratified not so much for the purpose of limiting the power of the national government but rather to enhance that power, albeit in a carefully balanced way. The Articles of Confederation had addressed the issue by a most limited grant of powers from the states to the Congress acting as the national government. The authority to issue patents was not a part of that limited grant. It was only with the ratification of the Constitution that the Congress came to have the necessary authority to make statutory enactments pertaining to patents.

D. *Initial Activity*

The transitional period which marks the early development of the American patent law can be conveniently divided into an introductory phase and a phase of early judicial and legislative modifications and interpretation, with the emphasis decidedly on judicial interpretation. The introductory phase to 1800 is characterized by the total absence of any reported case law in the United States. Nonetheless, it established a number of the basic tenets found in modern American patent law.

The starting point was the drafting of the Constitution in 1787, because the patent law derives from a constitutional grant of authority to the Congress "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."[18] Prior to the ratification by the requisite nine states in 1788,[19] there was no federal patent law because under the Articles of Confederation each state retained "every power, jurisdiction and right, which is not by the confederation expressly delegated to the United States, in Congress assembled."[20]

17 In 1812 Chancellor Kent clearly enunciated the difference in powers granted to a national government being created *ab initio* and those granted to a national government which is federal in nature, saying:

> When the people create a single, entire government, they grant at once all the rights of sovereignty. The powers granted are indefinite, and incapable of enumeration. Every thing is granted that is not expressly reserved in the constitutional charter, or necessarily retained as inherent in the people. But when a federal government is erected with only a portion of the sovereign power, the rule of construction is directly the reverse, and every power is reserved to the member that is not, either in express terms, or by necessary implication, taken away from them, and vested exclusively in the federal head. This rule has not only been acknowledged by the most intelligent friends to the constitution, but is plainly declared in the instrument itself.

Livingston v. Van Ingen, 9 Johns. R. 507, 574 (N.Y. 1812).

18 U.S. Const., Art. 1, § 8, cl. 8.

19 The Constitution was established as the supreme law of the land on June 21, 1788.

20 Articles of Confederation, Art. II.

Nonetheless, the American courts early in the nineteenth century did have a source of precedent, albeit an indirect and not binding one, in the development of the English common law relating to patents. During the transitional period from patent custom to patent system the English case law developed at a more rapid rate than did the American, and it was better reported. As will be seen, it had a considerable influence on the early American development of the patent law. Initially, however, this influence was more through codification in statutory law than through judicial interpretation of the statutory framework.

In 1818 Justice Joseph Story prepared a note summarizing English and American patent cases which began: "The patent acts of the United States are, in a great degree, founded on the principles and usages which have grown out of the English statute on the same subject. It may be useful, therefore, to collect together the cases which have been adjudged in England, with a view to illustrate the corresponding provisions of our own laws; and then bring in review the adjudications in the courts of the United States."[12] In his great patent treatise published in 1890, Robinson went considerably further, saying: "Our patent acts have always depended upon common-law principles for their construction and until recently have been uniformly treated as a part of that great body of theoretical and practical jurisprudence."[13]

Robinson overstated the matter considerably, at least with respect to the American statutory law embodied in the Acts of 1790 and 1793.[14] Accordingly, one major purpose of this work is to point out both those parallel features of the American statutory law and the common law of patents and where the two systems of patent law early parted company. And as the early American judicial opinions would make clear, the American patent law almost from its inception departed from its common law counterpart in the interpretation that would be given to the definition of novelty and in the role of the specification in determining

Boulton v. Bull, 2 H. Bl. at 491, 126 Eng. Rep. at 665 (King's Bench 1795), as quoted by H. I. Dutton, The Patent System and Inventive Activity During the Industrial Revolution, 1750–1852 [hereafter Patent System] (Manchester 1984) at 71.

12 See *On the Patent Laws*, 16 U.S. (3 Wheat.) 13 (1818). This Note is anonymous, but Prager points out that there is good evidence to show that it was written by Story. See F. D. Prager, *The Influence of Mr. Justice Story on American Patent Law*, 5 Am. J. Leg. Hist. 254n (1961).

13 William C. Robinson, I The Law of Patents for Useful Inventions (1890) at 15n.

14 Meshbesher seeks to emphasize "as emphatically as possible that . . . the origins and in some respects the early practice and development of patent law" in the United States was not predicated on the common law way of thinking. See Thomas M. Meshbesher, *The Role of History in Comparative Patent Law*, 78 J.P.T.O.S. 594, 595 (1996).

patent custom fails to qualify as a proper patent system was the lack of an adequately established legal frame of reference for it.[3]

To ask which comes first, a patent system or the patent law, is to create a conundrum for which there is no easy answer; they are inextricably intertwined. Yet the law is not immutable, it changes, and as the patent law changes so does the patent system. To understand the patent system, it is first necessary to understand the patent law. But to understand the patent law, one must know the history of that law and how it came to exist as it is.[4] In this regard, the plaint first issued more than 160 years ago with respect to common-law copyright is fully applicable to the patent law: "What is its history—its judicial history? It is wrapt in obscurity and uncertainty."[5]

The purpose of this work is to unwrap the obscurity surrounding the origin and early evolution of the patent law in the United States and, to the extent possible, remove the uncertainties as to how and why that law first developed as it did.[6] In so doing, the concomitant transition from patent custom to patent system will also be traced. As will be shown, the transition was not an easy one; and the law was perceived for much of this period as aiding and abetting fraud in the procurement of patents. Nonetheless, it was during this time that the foundation of the modern patent law was laid, and the predicate need for the modern examination system demonstrated.

B. *Period Covered*

The origin and early development of the patent law in the United States covers a period of five decades from the drafting of the Consti-

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that in the closing years of the sixteenth century the English patent system was already well developed. *Id.* at 5.

3 William Hindmarch, an early authority on English patent law, states in a work first published in 1846 that "this branch of our law may therefore now be said to have *at last* assumed the form of *a regular system* (emphasis supplied)." W. M. Hindmarch, A Treatise on the Law Relative to Patent Privileges (London 1846) at 6.

4 As stated by Oliver Wendell Holmes, "[t]he history of what the law has been is necessary to the knowledge of what the law is." The Common Law at 33 (M. Howe ed. 1963).

5 Wheaton v. Peters, 29 Fed. Cas. 862, 871 (No. 17 486) (C.C.E.D. Pa. 1832), aff'd. 33 U.S. (8 Peters) 591 (1834).

6 In an earlier series of articles, I have discussed in detail the European, English, colonial, and state antecedents to the American patent law. See E. C. Walterscheid, *The Early Evolution of the United States Patent Law: Antecedents*, 76 J.P.T.O.S. 697 (1994) (Part 1, setting forth the European connection); 76 J.P.T.O.S. 849 (1994) (Part 2, discussing the early English patent custom); 77 J.P.T.O.S. 771, 847 (1995) (Part 3, analyzing the transition to the common law of patents); 78 J.P.T.O.S. 77 (1996) (Part 4, delineating the English patent practice to 1800); and 78 J.P.T.O.S. 615, ___ (1996) (Part 5, outlining the patent custom in America prior to creation of the federal system).

(2) The Legal List—http://www.lcp.com/The-Legal-List/
Comprehensive list of links to legal sources of information on the Internet (and elsewhere), written by Erik J. Heels and published by Lawyer's Cooperative Publishing.

(3) Cornell Legal Information Institute—http://www.law.cornell.edu/topical.html
Published by Cornell Law School; contains a list of legal sources by topic.

(4) Lycos—http://queryl.lycos.cs.cmu.edu/
Published by Carnegie-Mellon University, this is perhaps the most comprehensive "search engine" on the Web—its authors claim that it covers 91% of the Web! A variety of Boolean search options are available.

(5) Webcrawler—http://webcrawler.com/
Published by Global Network Navigator, Inc.; a search engine that allows the user to run searches covering a large portion of the Internet, similar to Lycos.

APPENDIX A: SOME USEFUL INTELLECTUAL PROPERTY LAW-RELATED SITES ON THE WORLD WIDE WEB

Corporate Sites:

(1) McDonald's—http://www.mcdonalds.com
Home page for McDonald's restaurant; contains a link to their purported legal "terms and conditions" for using their web page.
(2) "Fidelity"—http://www.fidelity.com
This site does not serve one specific company, but rather contains links to a number of different companies which each have "Fidelity" in their name. This is an example of a possible compromise in such a situation.
(3) Apple Computer—http://www.apple.com
Home page for Apple Computer; is an excellent source of general online information, especially regarding the Internet and computer industry.
(4) Oracle—http://www.oracle.com
Home page for Oracle, one of the leading innovators for Internet use; contains summaries of the latest industry news as well as Oracle's legal information.
(5) Silicon Graphics, Inc.—http://www.sgi.com
Home page for Silicon Graphics, Inc.; has links to extensive SGI trademark and copyright notice documents.

Government or Other Legal Information Sites:

(1) United States Patent and Trademark Office—http://www.uspto.gov
Home page of the U.S. Patent and Trademark Office; contains information about applying for a patent, as well as a searchable database of patents.
(2) Library of Congress—http://lcweb.loc.gov/homepage
Copyright Office—http://lcweb.loc.gov/copyright
Very useful site published by the Library of Congress; contains general copyright information as well as registration forms and form letters that can be used to register and protect your copyright.
(3) Copyright Clearinghouses:
ASCAP—http://www.ascap.com
BMI—http://www.bmi.com
Home pages of the 2 leading performance rights licensing groups in the music industry; both contain a searchable database of musical works.

- Are Emails monitored in fact?
- Have technologies been acquired to minimize the risk of inadvertent disclosure and misappropriation?
- Are policies in place regarding destruction or deletion of unnecessary additional copies of sensitive information?
- Are signed non-disclosure agreements obtained when third parties must have access to sensitive information?

In short, relying on prior employee training and documents to ensure proper handling of trade secrets can be a mistake in the Internet age. Essentially the same trade secret principles apply, but employees should not be presumed to keep trade secret fundamentals in mind while using these new technologies. To the contrary, trade secret protection may well get lost while employees come to grips with the new Internet technologies.

2. The Special Case of Monitoring Email

Although monitoring employee Email is highly recommended as a corporate security measure, care must be taken so as to not subject yourself to liability for invasion of privacy or breach of contract or other possible tort actions by an employee. The Electronic Communications Privacy Act of 1986 makes it illegal to intentionally intercept wire, oral, or electronic communication, but there is an express exemption for electronic communications services provided by an employer to an employee.[58] Nevertheless, it is best for firms to take precautionary steps in doing so, because there is little case law in this area to provide definitive guidance as to liability.

Firms which use the Internet should formulate a clear policy for its use, and let employees know what that policy is. It is important that the firm's policy (1) eliminate any employee expectations of privacy in their Email and computer files (because a reasonable expectation of privacy is strong support for a breach of privacy suit), and if possible, (2) require consent by each employee to such monitoring. It also would be wise to establish authorities within the firm, such as the managing partner or an executive, who must give permission for any monitoring.

Some points a computer and Internet policy statement should cover are:

- The firm's network and computers are to be used for business purposes only.

58 See, *generally*, 18 U.S.C. § 2510 (1996).

Damages are only available for the time after which the infringer had actual or constructive notice of infringement.[55] Marking the patented product provides constructive notice, precluding an infringer from claiming lack of notice in order to limit damages.

V. Trade Secrets

A. *Basic Principles of Trade Secret Law*

According to the Uniform Trade Secrets Act, there are five elements to a trade secret: A trade secret is (1) information, (2) which has value, (3) is secret—i.e., "... not generally known or readily ascertainable by proper means," (4) is valuable *because* it is a secret, and (5) is protected as a secret.[56] Thus, no trade secret can exist if the information is known to the general public or to the particular relevant industry as a whole. The trade secret owner should attempt to keep the information secret; otherwise, he may be deemed to have lost the trade secret. If a competitor steals the trade secret, as long as the holder of the trade secret has taken reasonable precautions to keep the information secret, then it will still remain a trade secret.[57]

B. *Issues the Internet Poses for Trade Secret Protection*

People may doubt the secrecy of sending an Email over the Internet and wonder whether sending a trade secret as part of an Email destroys the "intent to keep the information secret" which is necessary to keep a trade secret. However, sending trade secret information over the Internet probably does not in itself subject the trade secret owner to loss of that trade secret. It is a criminal offense to intercept an Email message and it is also a criminal offense to access a computer system which you are not authorized to access and read its contents. That criminal action is necessary to lose secrecy will probably preclude a claim that using Email is *per se* a failure to take reasonable steps to maintain secrecy.

However, practically speaking, computers and the Internet are a major threat to trade secrets. With the end of the cold war and increasing global competition spurred by increasing free trade, foreign countries have redeployed intelligence resources (i.e. spies!) against U.S. corporations to obtain trade secrets of U.S. companies. Moreover, crim-

55 35 U.S.C. § 287 (1996).

56 Uniform Trade Secrets Act § 1(4) (1985). The majority of states, including Minnesota, have trade secret protection based on the UTSA. *See* MINN. STAT. ANN. § 325C (West 1995).

57 E.I. duPont deNemours & Co. v. Christopher, 431 F.2d 1012 (5th Cir. 1970).

C. *Possibility of Utility Patents for Software on the Internet*

It is an axiom in patent law that discoveries of things existing in nature, scientific principles, theories, mathematical formulas, and mathematical algorithms are *not* patentable. Computer software used to be considered nothing more than an algorithm, and thus not patentable.[52] However, this situation has changed drastically in recent years. If software is characterized as *a machine for performing certain functions or a process directed to the manipulation and physical change of some physical structure*, then it is generally considered to be patentable subject matter by the PTO and by the courts.[53] A utility patent on software provides much stronger protection against design-arounds because it provides the user with an exclusive right to the idea embodied in the software, not just the specific code itself. Thus, a competitor could not just write its own code that performs the same functions.

The existence and popularity of the Internet makes utility patents for software desirable for two main reasons. First, the Internet has made it much easier to *copy* and *distribute* software. Email, downloading from a World Wide Web site, ftp, and posting on newsgroups are just a few of the means by which software can be acquired within minutes via the Internet. The broad protection that a utility patent provides may help to deter unauthorized distribution. Second, the Internet has opened up a whole new, lucrative market for software development, and much of the software being developed includes *interactive functions* which can only be protected fully under patent law, not copyright law. For instance, the World Wide Web has created a high demand for interface designs that allow users to perform operations or run programs much like on a stand-alone computer. While copyright law cannot protect such functionality, a utility patent will do so.

D. *Practical Guidelines and Tips*

1. Consider Whether the Technology is a "Flash in the Pan"

Generally, acquiring patent protection takes more time and money than other forms of intellectual property protection. A patent usually takes two or more years to issue, and costs anywhere from a few thousand dollars on up. Thus, if it is likely that the key features of the technology sought to be protected will be obsolete within two years,

52 Gottschalk v. Benson, 409 U.S. 63 (1972).

53 *See, e.g.*, In re Alappat, 33 F.3d 1526 (Fed. Cir. 1994); *see also* Examination Guidelines for Computer Related Inventions, 61 Fed. Reg. 7478 (1996).

from the date the application was filed.[39] ''Design patents'' cover the ornamental aspects of a design for an article of manufacture—as opposed to the functional or utilitarian aspect protected by utility patents—and last for 14 years from the date of issue.[40] ''Plant patents'' protect particular kinds of engineered plants, for the same term as utility patents.[41]

In order to gain a utility patent, several requirements must be met. First, the invention on which a patent is sought must be patentable subject matter, which includes any ''process, machine, manufacture, or composition of matter.''[42] Second, the invention must be useful; i.e., it must have some ''utility.''[43] Third, the invention must be ''novel''; that is, you cannot patent something that is identically shown in the prior art.[44] Fourth, the invention must be ''nonobvious'' to one ''skilled in the art'' upon examining prior inventions. Accordingly, even though the invention is not identically shown in the prior art, it must differ from the prior art in a way that is not obvious to one skilled in the relevant art.[45] Finally, as part of the bargain in gaining a monopoly, the inventor is required to fully disclose the invention in the ''specification'' of the patent, including disclosure of the ''best mode'' of operation.[46]

Even if the above requirements of patentability are met, an inventor can still be ''barred'' from getting a patent by various actions (or inaction) following the invention, including delay, publishing related information, and placing the invention on sale too long before applying for a patent.[47]

Design patents are subject to the same requirements discussed above for utility patents, except nonobviousness is determined from the perspective of a *designer* skilled in the art. Since design patents and utility patents cover different aspects of a product (the former covers ornamental aspects, the latter functional aspects), a single product can be the subject of design patent(s) and utility patent(s).

39 35 U.S.C. § 154 (1996).
40 35 U.S.C. § 173 (1996).
41 35 U.S.C. § 154 (1996).
42 35 U.S.C. § 101 (1996).
43 Id. Generally, this has not been a very stringent requirement and is rarely an issue for patentability.
44 35 U.S.C. § 102 (1996).
45 35 U.S.C. § 103 (1996).
46 35 U.S.C. § 112 (1996).
47 35 U.S.C. § 102(b)-(g) (1996).

from the project to you. Otherwise, the developers will retain ownership of the work, which can lead to a difficult situation. For example, the developer could sell the work to another party such as one of your competitors.

2. Do Not Use Unauthorized Materials in Your Web Site

All materials that are implemented in your Web site should either be *owned* by you or you should have the *right* to use them via license or the fact that they are in the public domain. Do not assume that the defenses of fair use or an implied license will give you the right to use others' material on your Web site—the scope of each of these defenses is quite narrow.

If you are unable to negotiate an agreement for the use of some material, do not use it in your Web site; look for alternative material in the public domain or use material that you own. Finally, any material that you do put on your Web site should display proper attribution to the copyright owner.

3. Register Your Copyrighted Materials and Always Mark Them With a Copyright Notice When Displayed on the Internet

Although the importance of registration has been significantly reduced in recent years, registration does provide several benefits: (1) it is required in order to file a copyright infringement suit as to U.S. works;[33] (2) registration within 5 years of first publication creates a presumption of copyright validity; (3) it is required in order to be awarded statutory damages and attorneys fees; and (4) it is required in order to record changes in assignment and licenses with the Copyright Office. Given the minimal cost of registration, it is almost always worthwhile.

Marking a copyrighted work with notice of copyright is also recommended because: (1) it deters potential infringers; and (2) it precludes the defense of lack of notice as a means for mitigating actual or statutory damages.[34] Copyright notice should be in the form of a "©" or "Copyright" or "Copr.," followed by the year of first publication and the name of the copyright owner.[35] Notice should appear on or alongside the copyrighted works on the page. It is also recommended to have a general notice of rights relating to use of the materials on the

33 However, for claims arising after March 1, 1989 as to works of *foreign* origin, registration is no longer required.

34 17 U.S.C. § 401(d) (1996).

35 Example: © 1996 John C. Reich.

fringer had an express license to use the copyrighted work, or that the copyright owner's behavior created an *implied* license.

B. *Copyright Infringement Issues on the Internet*

1. What Information and Materials Can You Put on Your Web Page Without Infringing the Copyrights of Others?

Generally, creating a Web page is just like creating any other kind of compilation, such as a book of poems or a collection of photographs. Rights in every individual work (or piece thereof) used must: (1) belong to the Web page creator; (2) be in the public domain; or (3) have been assigned or licensed to the Web page creator.

Because Web site publishers may want to incorporate parts of many works owned by others into their Web sites, they face a situation similar to that faced by developers of multimedia CD-ROM's. A Web site may incorporate small snippets from many different pre-existing works in a variety of media. Examples include text, graphics, photographs, paintings, music, sound, animation, and even live video. The task of obtaining rights for all of the individual works at a reasonable cost, while giving the copyright holder of each work what he would consider a reasonable price for its use, is quite daunting and often impossible.

Additionally, new Web site design technology allows users to select certain materials from other Web sites without actually loading the other sites. If the individual material that is "copied" onto the current Web site is protected by copyright, then the new arrangement of the displayed page may be deemed a derivative work of the copyrighted material. Thus, the creators of the Web site could be held liable for contributory infringement for assisting in the violation of the copyright owner's exclusive right to create derivative works.

As to ordinary links to other Web pages, though, Web site owners probably need not worry about contributory infringement liability. Though this issue has not been tested in the courts, it is commonly agreed that merely setting up a link to a site is insufficient to form the basis of any infringement claim, whether the link is authorized by the owner of the other site or not.[28]

28 *See, e.g.*, John B. Kennedy & Shoshana R. Davids, *Web-Site Agreements Do Not Wrap Up IP Rights*, TTH NATIONAL LAW JOURNAL, Oct. 23, 1995, at Cl.

computer bulletin board distributed unauthorized copies of Playboy photographs which could be downloaded using a computer and modem. The defendant used the trademarked "Playboy" name in the name or address of some of these files and the court ruled that this constituted trademark infringement because it led consumers to believe that Playboy was authorizing or sponsoring the photographs available at this site. Similarly, in *The Comp Examiner Agency v. Juris, Inc.*, the court issued a preliminary injunction precluding The Comp Examiner Agency from using its registered domain name "juris.com" for its Web site, because Juris, Inc. has a trademark in the name "Juris," and Juris and The Comp Examiner Agency both sell software in the same market.[16]

Recent cases have indicated that the Internet will be considered a bastion of free speech, so it is likely that traditional court approval of fair, accurate, comparative use of trademarks will apply on the Internet as well. However, legislation on such issues will remain in flux and should be regularly monitored.

Finally, if you are accused of unfair competition or infringement for activities on the Internet, your standard business insurance may well cover your defense costs and the damages under "advertising injury" clause. To protect your rights, the insurer should be given prompt notice of such a claim.

III. Copyright

A. *Basic Principles of Copyright Law*

Copyright is the federal right of an author to *exclude* others from: (1) reproducing the copyrighted work; (2) preparing derivative works (modifications based on the original, copyrighted work); (3) distributing copies of the work; (4) performing the work publicly; and (5) displaying the work publicly.[17] Copyright usually vests in an author upon creation and fixation of the work, and lasts for the life of the author plus 50 years; however, in the case of a "work made for hire," the copyright expires 75 years from publication or 100 years from creation (whichever ends first).[18] A work made for hire is a work made by an employee within the scope of employment or a specially commissioned work by a contractor.[19]

16 No. 96-0213 (C.D. Cal. April 30, 1996).
17 17 U.S.C. § 106 (1996).
18 17 U.S.C. § 302 (1996).
19 17 U.S.C. § 101 (1996).

main name itself from the current owner, or otherwise acquiring rights to its use, may also be an option.[12] If consumer or other confusion is a concern, consider an effort to stop the prior name registrant from using the domain name, *even if* you may not acquire rights to use the domain name yourself. For example, a domain name may simply include notices referring users to other Web pages.[13]

c. Litigation Options

(1) Anti-Dilution: Lawsuits for the Rich and Famous

As discussed above, Congress recently passed the Federal Trademark Dilution Act to give owners of famous marks the right to stop use of the same or similar mark on goods or services completely different than those used with the famous trademark, even absent infringement, if the other's use of the mark dilutes or tarnishes the famous mark. Federal trademark registrations are important both for the party asserting dilution and the party defending against such a claim.

Trademark owners may rely on tarnishment to enjoin use of a domain name. *In Hasbro v. Internet Entertainment Group*, a Washington District Court stopped a Seattle company from using the domain name "candyland.com" for its sexually-oriented products.[14] Hasbro, Inc. makes the popular children's board game "Candyland." The injunction rested on a tarnishment theory and on the Federal Trademark Dilution Act of 1995.

(2) Classic Infringement for the Non-Famous and the Rest

The owner of a non-famous mark may have more difficulty reclaiming the name from a domain name owner who has some good faith basis for using the name. There is too little case law to predict the outcome of such battles with any certainty. Nevertheless, applying well-established trademark principles suggest the following factors, among others, will be considered:

- Who was the first to use the name/mark in any manner and in commerce?

12 This was the option taken by McDonald's Corp. in a well publicized dispute, in which an individual registered the domain name "mcdonalds.com" before McDonald's did, and then forced McDonald's to negotiate for the right to use it.

13 *See, e.g.*, "http://www.fidelity.com."

14 Case No. 2:96CV-130WD (W.D. Wash. Feb. 7, 1996).

mark or trade name is used. Indeed, it is true even if *no* goods or services are associated with the term. Moreover, domain names often are shortened versions of trademarks or trade names, including abbreviations and initials, and of course include only characters and no designs. Put all these facts together and the domain name game creates several potential battlefields, including the following:

- Two companies have legitimately used the same name or mark on different products or services, and both want to use it as a domain name.
- Two companies in different parts of the country have similar marks or names, and want to use the name as a domain name.
- Two companies with different marks or names seek similar domain names because one (or both) seeks to shorten its mark in a way which makes the domain names similar or identical.
- An unscrupulous competitor or third party anticipates your desire for a particular domain name and obtains it first.

Eventually, some of these conflicts may be resolved outside the courtroom. Some commentators have suggested providing "subdomains" within the ".com" system for types of goods or services, or by geographic area, in a manner akin to Yellow Pages listings. Alternatively, conflicts may become so common that Internet users will cease to guess at a domain name from a trademark or other shorthand term, instead relying on directory listings or the like. However, developments do not appear imminent, and in any event will not resolve all the potential conflicts.

2. Possible Solutions

a. Register, Register, Register

Parties concerned with preserving their rights to use certain domain names should promptly take the following steps:

- Determine what federal trademark registrations they own in the name, if any.
- If no registrations are owned, a clearance search including a domain name search should be performed on the name.
- If the name is available, federally register the name as a trademark, and simultaneously apply for the domain name with InterNIC.

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protects consumers from confusion as to the source of a particular product or service, and prevents competitors from trading on the reputation and goodwill built up by another. The basic elements of proving infringement are (1) a protectible mark or trade dress, and (2) likelihood of confusion created among an appreciable number of consumers due to the similarity of the marks or trade dresses.

1. Protectible Trademarks and Trade Dresses

Federally registered trademarks and trade dress are presumptively protectible.[7] Even if not registered, such rights are protectible under state law, and under Section 43(a) of the Lanham Act.[8]

Trademarks and trade dress which are *inherently distinctive* are protectible. Even *descriptive* terms and other trade dress are protectible if they acquire distinctiveness in the minds of consumers. Distinctiveness, or *secondary meaning*, arises when consumers come to associate the mark with a particular source due to, for example, extensive or prolonged sales and advertising.

2. Trade Names

Whereas a trademark indicates the source of a product or service, a *trade name* is a symbol used to identify a company, partnership, or business. A word used only as a trade name and not as a trademark is *not* federally registerable. However, trade names are protected at state common law and at federal law under Section 43(a) of the Lanham Act. Just as for trademarks, the test for infringement of trade names is likelihood of confusion.

3. False Advertising and Other Forms of Unfair Competition

"Unfair competition" describes many types of commercial torts other than trademark or trade name infringement. Unfair competition includes false advertising about one's own product or services, trade disparagement or trade libel as to other people's products, and related activities. Most states have statutes dealing with some form of "unfair competition" or "unfair business practices."[9]

At the federal level, Section 43(a) of the Lanham Act is construed as a general unfair competition statute to include unregistered trademark and trade dress infringement, trade libel, and false advertising.

7 Lanham Act § 7(b), 15 U.S.C. § 1057(b) (1996).
8 15 U.S.C. § 1125(a) (1996).
9 *See, e.g.*, Minn. Stat. Ann. §333 (West 1995).

efforts. NSI manages the registration of domain names for InterNIC, and the only way a domain name can be obtained is to attempt to register it through NSI. Registration must be done electronically, and templates are available at the InterNIC Web site at "http: \\rs.internic.net."

There are several stringent rules that must be followed in registering a domain name. First, the name can only be 24 characters long, including all periods and the top level domain. Also, InterNIC will not register a domain name unless the registrant has at least two dedicated servers assigned to and supporting that domain name. This requirement ensures that the registrant has at least made a minimum investment of setting up an Internet site for its domain name, and discourages people from "hoarding" or "pirating" domain names with no intent to use them, but rather sell them to someone else at a handsome profit. Also, there is a $100 registration fee, which allows use of the domain name for two years, and $50 will be charged every year thereafter to renew registration.

3. Domain Name Dispute Resolution Policy

Because each unique domain name cannot be used by more than one Web site, and because more and more companies are now seeing the value in staking out space on the Internet, domain name disputes are becoming increasingly common. As a result, NSI promulgated new guidelines in July of 1995 to address problems related to trademark disputes in domain names.[5] These guidelines became effective on November 23, 1995.

Under the new domain name guidelines, NSI registers domain names on a first-come, first-served basis (as it did before the guidelines) and will not perform any trademark searches or otherwise investigate whether an applicant's use of a domain name infringes upon the rights of a third party. One of the new requirements for registration is that the registrant indemnify NSI of such liability. Also, registrants must proclaim that they are not interfering with the rights of any third party with respect to trademarks or any other intellectual property in using or registering the domain name. NSI merely checks to see whether the desired domain name has already been registered by another as a domain name.

5 A copy of the guidelines is available on the Web at "http://rs.internic.net/domain-info/internic-domain-for-html."

called "the Web," is the ultimate marketing tool, allowing individuals and organizations to post text, graphics, sound, and even video on their "Web page," and then watch as people by the millions come to browse through it.[2] A major convenience of the Web is that its "hypertext" structure provides the capability of instantly jumping from one page to another, and allows the creation of "links" to other pages so that this jumping can be done at the click of the mouse button.

B. *Domain Names*

1. General

Computers on the Internet, called "host computers",[3] are identified by both numbers and names. The number consists of four parts separated by periods: for example, "136.152.66.39." This number is commonly referred to as the "IP address" of the computer, pinpointing the location of that computer on the Internet, so that it may be reached by users at other computers.

However, a string of numbers is very difficult to remember, so numbers are infrequently used to refer to the computers. As an alternative to numbers, every machine also has a name, or "domain name address," consisting of two or more words separated by periods. For example, the computers at Merchant & Gould are named "merchantgould.com." The naming scheme for host computers is fairly flexible; a single host computer may have a single name, a single host computer may have several different names, or several host computers (on the same network) may share the same name. This naming scheme is useful under the common situation in which there are multiple machines available and it does not matter to which machine the user connects.

The name (domain name address) of a machine can be divided into two basic parts: the "domain name," and the "host name." The domain name refers to the network to which the particular computer is connected. For example, the names of all of the computers on the University of Minnesota-Twin Cities Campus network end in the domain name "tc.umn.edu." The host name refers to the name of a particular computer on that network. For example, "gold" is the name of a par-

2 For example, the ESPN site on the Web averages over 50,000 visitors per day, and millions per year. *See* "http://espnet.sportszone.com."

3 Multiple computers in an area, such as at a college campus, are connected together into a "Local Area Network." One or more computers on the network serve as "hosts" (or, "servers") and provide services to the other computers on the network. These hosts are connected to hosts at other networks, thus creating the vast network of networks dubbed "the Internet."

which had as its sole express purpose to provide a basis for a priority claim (and its incidental unintended effect of providing foreigners with a real national US filing date under 35 U.S.C. §§ 102(b), (d) and (e)). Had the new US provisional application been endowed with the earmarks of a patent application, then it would have required the presence of at least one claim, and even more importantly, the ability to refile it as a regular, nonprovisional application. That would have established the new provisional application as a *bona fide* patent application. Many seem to think, however, that provisional applications cannot be viewed as proper patent applications. That cloud over the foreign priority value of provisional applications, still allows them to be useful for foreigners, but renders them of little or no value to applicants from the United States.

While agreeing with the author of the article that a legislative remedy is required for the current doubtful value of provisional applications, the undersigned is of the view that the proper remedy would be to eliminating them completely by reestablishing a minimum patent term of at least 17 years from issue. This was the desirable aim of the previous, rather simplistic Rohrabacher Bill (H.R. 359) in the previous Congress, and its reintroduction with some safeguards (such as a maximum patent term of e.g. 30 years from filing) would appear to be highly desirable. The retirement from the House of Representatives of the Chairman and senior minority member of the intellectual property subcommittee, the two previous roadblocks to sensible patent legislation, will make such desirable reforms possible.

Very sincerely yours,
Gabriel P. Katona

RE: "CONTINUING EDUCATION" FOR BOTH EXAMINERS AND REGISTERED PATENT PRACTITIONERS

Dear Mr. Zarfas:

The recent activity by the PTO relative to requiring all registered patent practitioners to participate in "continuing education" in order to continue their right to prosecute patent cases seems to almost automatically suggest that concurrently the PTO consider the desirability of forcing all examiners to continue to keep up with the intellectual property field and the specific fields of their work in the PTO by attending, at their own expense, activities which are the same as those these practitioners will be required to attend.

When given the choice of arbitrating claims against the PTO in lieu of trial *de novo* in Federal District Court, few could resist ADR's charms: arbitration provides a private, non-reportorial, non-precedential, cost-effective, conclusive, and relatively prompt way of resolving disputes before a neutral decision-maker(s) having expertise in the law and technology most relevant to the dispute at hand.

From the policy standpoint, several objections come to mind. Some might argue that ADR is unsuited for determining matters affecting the public interest, but instead should be relegated to sorting out the private rights of non-governmental litigants. Others might conclude that ADR is best suited for "dividing a pie" rather than deciding who is right and who is wrong.

But these and other objections against the use of ADR have been made before in many areas of the law—they are not unique to patent cases. And they haven't deterred the courts from compelling arbitration situations involving public rights. For example, the U.S. Supreme Court has upheld the legality and enforceability of contract arbitration clauses in suits arising under the antitrust, RICO, and securities laws.

More importantly, in the field of patents, Congress has already legislated the arbitrability of dispute among private parties in litigations (35 U.S.C. § 294) and interferences (35 U.S.C. § 135(d)). Moreover, Section 145 cases often end with the Commissioner agreeing to settlement. If it is all right for the Commissioner to settle, and for patent litigants and interfering patent applicants to arbitrate or settle, then wouldn't it be proper and helpful for the PTO to endorse ADR in lawsuits against it?

A variety of interesting legal issues might present themselves should the PTO shift into high gear ADR, including several that are peculiar to patent law and which are already being hotly debated. *See, e.g.* Professor Craig Allen Nard, *Deference, Defiance And The Useful Arts*, 56 OHIO ST. L.J. 1415 (1995) and the recent decision on the issue of deference in *In Re Kemps*, 40 U.S.P.Q. 2d 1309 (Fed. Cir. 1996). At a minimum, one might expect the arrival of ADR at the PTO's doorstep to fan the intellectual fires of that debate.

F. Scott Kieff
Charles E. Miller
Bart J. van den Broek
Pennie & Edmonds, New York, NY

full extent of their liability and other measures may add to their cost of doing business, the working group noted that they are still in a better position to prevent or stop infringement than the copyright owner.

Since other businesses have the same costs of doing business as on-line service providers, the working group was unwilling to recommend a higher standard of liability or an exemption for service providers. The working group noted that since other businesses have been able to take appropriate precautions to minimize their risk of liability through indemnification agreements and insurance, the service providers should be able to as well.

In support of the working group's recommendations, the White Paper states that the full potential of the NII will not be realized if the education, information, and entertainment products protected by intellectual property laws are not protected effectively when disseminated via the NII. Creators and other owners of intellectual property rights will not be willing to put their interests at risk if appropriate systems are not in place to permit them to set and enforce the terms and conditions under which their works are made available in the NII environment. The White Paper emphasizes that "all the computers, telephones, fax machines, scanners, cameras, keyboards, televisions, monitors, printers, switches, routers, wires, cables, networks, and satellites in the world will not create a successful NII, if there is no *content.*" It is yet to be determined whether the NII Copyright Protection Act of 1995 provides such suitable protection.

IV. Copyright Liability Rules on the Internet

[*Continued Next Month*]

sions'' refers to transmissions that are controlled by the transmitter and limited to particular recipients who must pay to receive the transmission. Again, interactive services do not qualify. The transmission must meet various criteria, including:

(1) The transmission must not be part of an interactive service. An ''interactive service'' permits a member of the public to receive, on request, any particular sound recording chosen by or for the recipient. Section 114(d)(2)(A).
(2) The transmission must not exceed the sound recording performances complement as defined in Section 114(j)(7). The ''sound recording performances complement'' provides that, during any three-hour period, the transmission must not contain more than three selections in total from any one sound recording, with no more than two of the selections being played consecutively. Additionally, the sound recording complement provides that, during any three-hour period, the transmission must not contain more than four selections in total by the same recording artist or from any boxed set of sound recordings, with no more than three of the selections being played consecutively. Section 114(d)(2)(B).
(3) The entity transmitting the performance must not announce in advance the titles of sound recordings to be transmitted. Section 114(d)(2)(C).
(4) The entity transmitting the performance must not automatically cause any device receiving the transmission to switch from one channel to another, except when transmitting to a business establishment. Section 114(d)(2)(D).
(5) If the sound recording contains encoded information concerning its title, recording artist, the song or other related information, such encoded information must be transmitted as well. Section 114(d)(2)(E).

If the subscription transmission does not meet these criteria, the subscription transmission requires a license through voluntary negotiations with the owner of the sound recording copyright.

As previously stated, the Act provides changes to the Copyright Act that affect the compulsory mechanical license. The compulsory mechanical license section of the Copyright Act provides record companies with the right to make new recordings of previously recorded songs on terms and conditions established by law rather than by ne-

owner. Further, the NII working group recommends that the definitions of "transmit" and "publication" be amended. The proposed legislation adopts both of these recommendations by amending 17 U.S.C. § 106(3) such that the owner of a copyright has the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, *or by rental, lease, or lending, or by transmission.*" Additionally, 17 U.S.C. § 101 is amended so that the definition of "publication" refers to "the distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, *or by rental, lease, or lending, or by transmission.*" Further, the Section 101 definition of "transmit" is amended to read "to 'transmit' a reproduction is to distribute it by any device or process whereby a copy or phonorecord of the work is fixed beyond the place from which it was sent."

2. *Application of fair use privileges*—The working group recommends that the library exemptions be increased to allow three copies of works in digital form and an exemption be allowed for non-profit organizations to reproduce and distribute Braille versions of copyrighted work to the visually impaired.
3. *Prohibitions*—The working group recommends the prohibition of any device or product whose primary purpose is to deactivate, without authorization, any technological protections which prevent or inhibit the violation of exclusive rights under the Copyright Law. The working group also recommends the prohibition of the distribution of copyright management information that is known to be false as well as the unauthorized removal or alteration of copyright management information. The phrase "copyright management information" includes the name or other identifying information of an author or copyright owner, or the terms and conditions for the uses of the work.
4. *Support of pending criminal legislation*—The working group supports an amendment to the Copyright Law and the Criminal Law which makes it a criminal offense to willfully infringe a copyright by reproducing or distributing copies with a retail value of $5,000 or more. The requirement of the monetary value and the intent of willfulness ensures that merely casual or careless conduct resulting in distribution of only a few copies will not be subject to criminal prosecution.
5. *Electronic contracts*—The working group supports efforts that are presently underway to revise Article 2 of the UCC to encompass licensing of intellectual property via electronic contracts.
6. *Encryption*—The working group supports efforts to develop encryption technology.
7. *Service provider liability*—The working group does not currently believe that it is prudent to reduce the liability of any type of service provider (such as Internet service providers) in the NII environment. Exempting or reducing the liability of service providers would prematurely choke development of marketplace tools that could be used to lessen their risk of liability and the risk to copyright owners. The working group considers it unfeasible to identify *a priori* the circumstances or situations under which service providers should have reduced

memory of the linked computer, can be "perceived, reproduced, or otherwise communicated." Under the reasoning of *MAI* and *Triad Systems*, reproduction of the video display bitmap into RAM would infringe the reproduction right in the program.

D. *The Distribution Right, Transmission*

The Copyright Act was recently amended to grant copyright owners of sound recording the right to authorize digital transmission of their works, as discussed in Section III.A below. Regarding electronic transmissions of other works, bills are pending in both the House and Senate that will specifically amend the Copyright Act to state that the owner of a copyright has the exclusive right to distribute copies of the work "by transmission" and that a publication of the work can similarly occur "by transmission," as discussed below in Section III.B.

III. Recent and Proposed Changes to Copyright Act

A. *The Digital Performance Right in Sound Recordings Act of 1995*

The Digital Performance Right in Sound Recordings Act of 1995, signed into law on November 1, 1995, grants copyright owners of sound recordings the right to authorize digital transmission of their works. This exceedingly complex Act was created due to pre-existing copyright laws not adequately covering the digital transmission of information. As such, hackers were distributing copyrighted digital images (*e.g.*, songs) to numerous people across the Internet with little fear of the transmission being a copyright infringement. The Act amends 17 U.S.C. § 106 so that the owner of a copyright has the exclusive right "in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission." Although providing the exclusive right, the Act has a number of limitations. In addition, the Act broadens the Copyright Act's existing compulsory "mechanical" license provisions to include a right to distribute recordings by digital transmission.

The new right for public performances by means of "digital audio transmission" is the only type of public performance right enjoyed by owners of the copyrights in sound recordings. Previous to the enactment of the Act, only owners of copyrights in the underlying musical composition (typically song writers or music publishers) enjoyed a public performance right. The Act met considerable resistance from broadcasters and music publishers before it passed. The broadcasters resisted

Section 117 allows the owner of a copy of a computer program to make a copy of the program, subject to certain limitations. It provides in pertinent part that:

> Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:
> (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner. . . .[6]

17 U.S.C. § 117. Of note, Section 117 applies to the *owner* of a copy of a program. Therefore, in determining whether a user qualifies for treatment under Section 117, it is necessary to first determine ownership of the copy. R. NIMMER, LAW OF COMPUTER TECHNOLOGY § 1.18[1] at 1-102.

A copy created under the protection afforded by Section 117(1) must be "created as an essential step in the utilization of the computer program in conjunction with a machine and . . . used in no other manner. . . ." Courts have held "an essential step in the utilization of the computer program" to mean "only the copying of a program into a computer's memory in order to permit the computer to execute the program," and not the storage of the program on diskette or other more permanent forms of program storage. *See Apple Computer, Inc. v. Formula Int'l, Inc.*, 594 F. Supp. 617 (C.D. Cal. 1984) (right to make essential copy may be restricted to making copy in form no more permanent than reasonably necessary for use of program in computer).

More importantly, in construing "in no other manner," courts have held that the right to make an essential copy would not be restricted by the fact that the copy protected under Section 117 was made incident to a use of the program that was not intended by the copyright owner at the time of the sale. *See Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 261 (5th Cir. 1988) ("Section 117(1) contains no language to suggest that the copy it permits must be employed for a use intended by the copyright owner, and, absent clear congressional guidance to the contrary, we refuse to read such limiting language into this exception."). For example, in *Vault*, the plaintiff developed software to prevent computer programs placed on a diskette from being copied onto other storage media. The defendant loaded its copy of plaintiff's pro-

6 Section 117(2) provides that an owner may also make a copy for archival purposes. This right, however, does not enter into the analysis of the issue presented here.

are fixed and, therefore, copies." CONTU Final Report at 22 (1978), *reprinted in* 2 COMPUTER LAW § 4.04[4] at 4-317. The CONTU Final Report makes it clear that "[i]nsofar as a contrary conclusion is suggested . . . this should be regarded as incorrect and should not be followed, since legislative history need not be perused in the construction of an unambiguous statute." *Id.* at 22 n.111. A number of cases have followed the CONTU Final Report instead of the House Report. 2 COMPUTER LAW § 4.04[4] at 4-318.

The Ninth Circuit has addressed this issue and held that a copy is created when a program is read into RAM. *MAI Systems Corp. v. Peak Computer Inc.*, 991 F.2d 511 (9th Cir. 1993), *cert. dismissed*, 114 S. Ct. 671 (1994). In *MAI*, the plaintiff manufactured computers and created the system software for its computers; the defendant performed hardware maintenance services. *Id.* at 513. The defendant's employees, in servicing customers' computers manufactured by plaintiff, often turned on the customers' computers and, in so doing, caused the system software to be loaded from ROM into RAM. *Id.* at 517. Defendant argued that no copy was created because the representation in RAM was not "fixed." *Id.* at 518. However, the court found that defendant was able to view a system error log and diagnose problems after loading the software. *Id.* The court held that "the representation created in RAM is 'sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration' " and was therefore a copy, and that creating a copy by loading copyrighted software into RAM violates the Copyright Act. *Id.*

A recent district court case followed *MAI*, reaching the same conclusion on a nearly identical set of facts. *Triad Systems Corp. v. Southeastern Express Co.*, 31 U.S.P.Q.2d 1239 (N.D.C. 1994). In *Triad Systems*, the defendant argued that summary judgment should not be entered because the code copied into RAM did not reside there long enough to generate any screen displays, as had been the case in *MAI*. 31 U.S.P.Q.2d at 1243. The court relied on *MAI* in granting summary judgment to the plaintiff:

> While the *MAI* court found that the generation of an "error log" on the computer's video display terminal was evidence of a fixed copy, the court did not hold or imply the converse: *i.e.*, that the *absence* of such a video display would be evidence that fixed copies were *not* created . . . *MAI* stands for the more general proposition that a "copy made in RAM is 'fixed' and qualifies as a copy under the Copyright Act."

3. Analysis

A distinction may arise between static content and content that comprises a series of images and accompanying sounds. In a first case, various static displays may be generated as a user inputs data and selects commands. These events most likely represent a "display" under Section 101 of the Act. In a second case, the displays may be more in the nature of an audiovisual work, with the resulting events being a "performance" under Section 101.

For Internet-based content, displays may appear on more than one monitor. A threshold question is whether any of the displays are "public." As with the issue of whether a performance is public (*see* Section I.C., *supra*), displays at relatively small, private business meetings may avoid the "public" characterization and may be permissible without the consent of the copyright owner.

C. *The Reproduction Right, Copies in RAM*

1. "Copy" of Display Bitmap

Section 106 of the Copyright Act confers upon a copyright owner the exclusive right to reproduce, and to authorize the reproduction of, the copyrighted work in copies. 17 U.S.C. § 106(1). This reproduction right:

> means the right to produce a material object in which the work is duplicated, transcribed, imitated [sic], or simulated in a fixed form from which it can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.

H. Rep. 94-1476 at 61. Further, "copies" are:

> material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.

17 U.S.C. § 101. Accordingly, "a copyrighted work would be infringed by reproducing it in whole or in any substantial part, and by duplicating it exactly or by imitation or simulation." H. Rep. 94-1476 at 61.

"Reproduction" under 17 U.S.C. § 106(1) is to be distinguished from "display" under 17 U.S.C. § 106(5). *Id.* at 62. Reproduction requires fixation in a tangible form that is "sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." *Id.* Represen-

B. *The Public Display Right*

1. Displaying a Work

Section 106(5) of the Copyright Act provides that "in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work," the owner of the copyright has the exclusive right to publicly display the copyrighted work. As discussed above in the case of performing a work, a computer program comprises a literary work and may also comprise an audiovisual work. *See* § I.A., *supra*. Further, a computer program may include pictorial or graphical works that are displayed by the program.

To display a work means "to show a copy of it, either directly or by means of a film, slide, television image, or any other device or process or, in the case of a motion picture or other audiovisual work, to show individual images non sequentially." 17 U.S.C. § 101. This definition also includes the showing of an image on a computer screen. 2 NIMMER ON COPYRIGHT § 8.20[A] at 8-275, *citing* H. Rep. 94-1476 at 64.

2. Limitations on the Display Right

a. "Display" Publicly

As in the case of the exclusive right to perform a work, the exclusive right to display a work is limited to *public* displays. *See* 17 U.S.C. § 106(5). The analysis for whether a display is rendered publicly parallels that of public performances. 2 NIMMER ON COPYRIGHT § 8.20[A] at 8-274 n.12. Further, the limitation of 17 U.S.C. § 110(1) for face-to-face teaching activities applies to displays as well as performances. *See* 17 U.S.C. § 110(1).

b. Owner's Right to Display Publicly (First Sale Doctrine)

However, under the "first sale doctrine" the exclusive right to publicly display a work is limited in its application against an owner of a lawfully made copy of the work. 2 NIMMER ON COPYRIGHT § 8.20[B] at 8-277. Section 109(c) of the Copyright Act limits the right to display such that

Notwithstanding the provisions of sections 106(4) and 106(5), the owner of a particular copy lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to display that copy pub-

persons is substantial. "Routine meetings of businesses or governmental personnel would be excluded because they do not represent the gathering of a 'substantial number of persons.' " H. Rep. 94-1476 at 64.[3] However, social settings open to the public may be settings for public performances. For example, twenty-one members of a private golf club plus their guests constituted a substantial number of persons outside of a normal circle of a family and social acquaintances, and the performance of musical compositions at such a gathering was held to be a public performance. *Fermata Int'l Melodies, Inc. v. Champions Golf Club, Inc.*, 712 F. Supp. 1257, 1260 (S.D. Tex. 1989); *c.f. Columbia Pictures Indus. v. Sandrow*, 1988 U.S. Dist. LEXIS 2311 at *6 (E.D. Pa. 1988) (argument specious that since only a few patrons of bar could view movies then no public performance occurred; public viewing of work in place open to public does not become private performance solely because most patrons in public bar have obstructed view).

d. Geographic Dispersion of the Audience

The geographic dispersion of an audience presents a third factor in determining whether a performance is public. Public performances and public displays also include certain transmissions or remote communications of a work. Section 101 of the Copyright Act provides that to perform or display a work publicly also means:

> (2) to transmit or otherwise communicate a performance of the work to [any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered] or to the public, by means of any device or process, whether the members of the public capable of receiving the performance . . . receive it in the same place or in separate places. . . .

17 U.S.C. § 101. Under this transmit clause, "a public performance at least involves sending out some sort of signal via a device or process to be received by the public at a place beyond the place from which it is sent." *Columbia Pictures Indus., Inc. v. Professional Real Estate Investors, Inc.*, 866 F.2d 278, 282 (9th Cir. 1989) (act of playing video disc in hotel room not actionable under this clause). It is not necessary that a "transmitted" public performance be attended or received by a

3 No cases were located which interpreted the House Report's indication that "[r]outine meetings of businesses or governmental personnel would be excluded because they do not represent the gathering of a 'substantial number of persons,' " although several cases have cited this general proposition in discussing the law of public performances. *See Columbia Pictures Industries, Inc. v. Professional Real Estate Inv., Inc.*, 866 F.2d 278, 281 (9th Cir. 1989); *Fermata Int'l. Melodies, Inc. v. Champions Golf Club, Inc.*, 712 F. Supp. 1257, 1260 (S.D. Tex. 1989); *Ackee Music, Inc. v. Williams*, 650 F. Supp. 653, 655 (D. Kan. 1986).

a computer would not appear to be a performance, nor would other internal operations of a computer—such as scanning a work to determine whether it contains material the user is seeking. David Nimmer and Melville B. Nimmer, 2 NIMMER ON COPYRIGHT § 8.14[B] at 8-168 (1994).

Moreover, to perform an audiovisual work means "to show its images in any sequence or to make the sounds accompanying it audible." 17 U.S.C. § 101. Thus, the original sequential order need not be maintained. 2 NIMMER ON COPYRIGHT § 8.14[B] at 8-168 n.29, *citing* H. Rep. 94-1476 at 64. Further, in the case of a video game,[1] the sequence of images is irrelevant to the characterization as a performance. *Id., citing Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275, 279 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990) (operation of video game wherein "television monitor displays a series of images and the loudspeaker makes audible their accompanying sounds" constitutes performance).[2]

2. Limitations on the Performance Right

While the Copyright Act confers broad rights in general terms to copyright owners, Sections 106 through 120 provide various limitations, exemptions, and qualifications to those rights. *See* 17 U.S.C. §§ 106–120; *see also* H. Rep. 94-1476 at 61. Two limitations on the right to perform a work apply in the case of computer programs. First, the right applies only to *public* performances. Second, the right is limited in the case of face-to-face instruction.

a. Perform "Publicly"

The exclusive right to perform works applies only to public performances, not private ones. *See* 17 U.S.C. § 106(4). The Copyright Act defines a public performance as follows:

1 Video games "can roughly be described as computers programmed to create on a television screen cartoons in which some of the action is controlled by the player." *Stern Electronics, Inc. v. Kaufman*, 669 F.2d 852, 853 (2d Cir. 1982), *quoted in Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275, 277 (4th Cir 1989), *cert. denied*, 493 U.S. 1058 (1990).

2 The court in *Red Baron* ultimately concluded that the defendant's purchase of circuit boards embodying the copyrighted video game program did not include an implied license to publicly perform the work by installing the circuit boards in coin-operated video game machines. Congress was dissatisfied with this conclusion and in passing the Computer Software Rental Amendments Act of 1980 specifically provided that the purchase of a lawful video game copy intended for use in a coin-operated video game machine does not require permission of the copyright owners to publicly perform or display the game. 2 NIMMER ON COPYRIGHT § 8.14[C] at 8-169 n.36.1, 17 U.S.C. § 109(e) (exemption for public performance of coin operated video games). The court's ruling in *Red Baron* and this amendment support the conclusion that running a video game program on a computer is a performance of the work.

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Notes from The Editor

Traditionally, January is a time for looking forward and backward simultaneously. Along those lines we have articles on evolving IP issues on the Internet as well as the origins of American patent law.

Messieurs Ferron, Daley-Watson and Kiklis provide us with the first of their two part treatise on On-Line Copyright issues.

From another angle, Dan McDonald, John Reid and Scott Bain explore IP and privacy issues on the Internet.

Ed Walterscheid begins a comprehensive history of the onset of Patent Law and Administration in this country from 1787 through 1836.

Lastly, the letters to the editor address provisional applications, continuing education requirements and the use of ADR against the PTO.

Happy New Year!
Louis S. Zarfas
Editor-in-Chief

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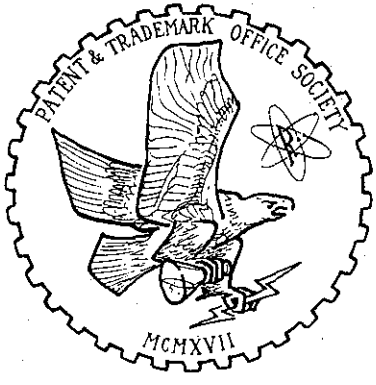

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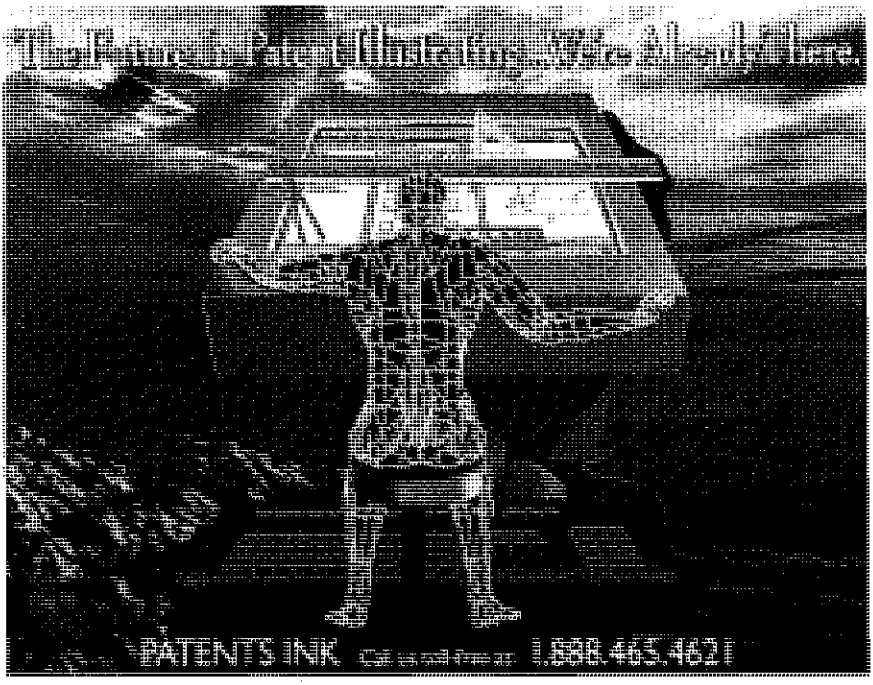

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On-Line Copyright Issues, Recent Case Law and Legislative Changes Affecting Internet and Other On-Line Publishers *(Part I)*

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V. ADDITIONAL RESOURCES

I. INTRODUCTION

This paper provides an overview of recent legislation and case law that affect the rights of owners of copyrighted works which are transmitted via a network, including the Digital Performance Right in Sound Recordings Act of 1995 and the NII Copyright Protection Act of 1995. This paper discusses below how copyright law affects the performance, display, reproduction, and transmission of copyrighted works, and the liability of both direct infringers and third parties.

II. REVIEW OF INTERNET-RELATED COPYRIGHTS

A. *The Public Performance Right*

1. Performing a Work

Section 106(4) of the Copyright Act grants copyright owners the exclusive right to "publicly perform and authorize public performance of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works." Because computer programs comprise literary works and may include audiovisual works, this performance right applies. *See Atari Games Corp. v. Nintendo of America Inc.*, 975 F.2d 832, 838 (Fed. Cir. 1992), *quoting* H.R. Rep. No. 1476, 94th Cong., 2d Sess., at 54 (1976) (literary works include computer programs) ("H. Rep. 94-1476"). *Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275, 279 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990) (video game program is audiovisual work).

To perform a work means "to recite, render, play, dance, or act it, either directly or by means of any device or process. . . ." 17 U.S.C. § 101. Such devices and processes include "all kinds of equipment for reproducing or amplifying sounds or visual images, any sort of transmitting apparatus, any type of electronic retrieval system, and any other techniques and systems not yet in use or even invented." H. Rep. 94-1476 at 63. However, the mere act of inputting a copyrighted work into

To perform or display a work "publicly" means–

(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or

(2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

17 U.S.C. § 101. The courts have looked to the (i) composition, (ii) size, and (iii) geographic dispersion of the audience in assessing whether a performance is public.

b. Composition of the Audience

The composition of the audience presents a first factor in determining whether a performance is public. A public performance is one made "at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered. . . ." 17 U.S.C. § 101. *See Columbia Pictures Indus., Inc. v. Redd Horne Inc.*, 749 F.2d 154 (3d Cir. 1984) (place is open to public even if access is limited to paying customers); *see also* H. Rep. 94-1476 at 64 ("[P]erformances in 'semipublic' places such as clubs, lodges, factories, summer camps, and schools are 'public performances' subject to copyright control."); *Fermata Int'l Melodies, Inc. v. Champions Golf Club, Inc.*, 712 F. Supp. 1257, 1260 (S.D. Tex. 1989), *aff'd mem.*, 915 F.2d 1567 (5th Cir. 1990) (private golf club held public).

c. Size of the Audience

The size of the audience presents a second factor in determining whether a performance is public. A performance is characterized as public if, under any limitations imposed, a substantial number of persons outside of a normal family circle, and its social acquaintances, *could* attend. 2 NIMMER ON COPYRIGHT § 8.14[C][1] at 8-172 (emphasis supplied). A performance retains its characterization as public even if, under the above restrictions, a substantial number of persons do not *actually* attend. 2 NIMMER ON COPYRIGHT § 8.14[C][1] at 8-172 ("Failure at the box office does not vitiate liability.").

On the other hand, if, under the restrictions imposed, persons outside of the family and social acquaintances did or could attend, the performance is still not rendered publicly unless the number of such

substantial number of persons. 2 Nimmer on Copyright § 8.14[C][2] at 8–174. A public performance merely requires that such performance be open to, that is, available to, a substantial number of persons. *Id.*

3. Face-to-Face Teaching Activities

Under Section 110(1) of the Copyright Act, the following is not an infringement of copyright:

> performance . . . of a work by instructors or pupils in the course of face-to-face teaching activities of a nonprofit educational institution, in a classroom or similar place devoted to instruction, unless, in the case of a motion picture or other audiovisual work, the performance . . . is given by means of a copy that was not lawfully made under this title, and that the person responsible for the performance knew or had reason to believe was not lawfully made. . . .

4. Analysis

Displaying Internet content on a computer may constitute a performance. In the case of multimedia programs or other programs generating audiovisual output, sequences of images are displayed on the computer monitor. Sounds accompanying the images are often made audible. ''Playing'' this sequence of events most likely amounts to a performance under 17 U.S.C. § 101.

Whether any performance becomes ''public'' when it is transmitted to and displayed on multiple personal computers depends on the circumstances. If the performance is restricted to a routine business meeting involving a limited number of persons at a private location (*e.g.*, corporate), the House Report and existing cases suggest any performance is private. If, however, the performance takes place in a public setting rather than in a routine business meeting, it is likely to constitute a public performance regardless of the number of persons attending. Similarly, a performance at a routine private business meeting attended by a substantial number of persons, or a private, non-routine business meeting attended by a small group would likely constitute a public performance.

In an educational setting, instructional performances may be exempt from public performance right under Section 110(1) because they are part of a face-to-face teaching.

licly, either directly or by the projection of no more than one image at a time, to viewers present at the place where the copy is located.

Such a display may be either direct or indirect, such as by projection. 17 U.S.C. § 109(c). If the display is indirect, then it must be of no more than one image at a time and the viewers must be present at the place where the copy is located. *Id.* The House Report provides some explanation:

> First of all, the public display of an image of a copyrighted work would not be exempted from copyright control if the copy from which the image was derived were outside the presence of the viewers. In other words, the display of a visual image of a copyrighted work would be an infringement if the image were transmitted by any method (by closed or open circuit television, for example, or by a computer system) from one place to members of the public located elsewhere. . . . [E]ven where the copy and the viewers are located at the same place, the simultaneous projection of multiple images of the work would not be exempted. For example, where each person in a lecture hall is supplied with a separate viewing apparatus, the copyright owner's permission would generally be required in order to project an image of a work on each individual screen at the same time.

H. Rep. 94-1476 at 80. *See Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc.*, 445 F. Supp. 875 (S.D. Fla. 1978), *aff'd*, 626 F.2d 1171 (5th Cir. 1980) (display right infringed by television transmission of magazine cover).

No case law was located which interprets the concept of a "place where the copy is located," but the legislative history behind 17 U.S.C. § 109(c) provides some insight into how far such a place can extend. The place where the copy is located refers to "a situation in which the viewers are present in the same physical surroundings as the copy, even though they cannot see the copy directly." H. Rep. 94-1476 at 80. The intent behind this restriction is "to preserve the traditional privilege of the owner of a copy to display it directly, but to place reasonable restrictions on the ability to display it indirectly in such a way that the copyright owner's market for reproduction and distribution of copies would be affected." Nimmer offers that the House Report suggests an expansive definition of place. *See* 2 NIMMER ON COPYRIGHT § 8.20[B] at 8-278. In a hypothetical example, Nimmer posits, "[i]f viewers observe a painting projected on a screen in one room of a large museum, while the 'copy' being projected is in another room at the opposite end of the museum, are the viewers 'present at the place where the copy is located'?" *Id.* Nimmer suggests that the entire museum should be considered the "place where the copy is located." *Id.*

tations of a program in storage media such as disks or read-only memory (ROM) clearly have permanence and stability. D. BENDER, 2 COMPUTER LAW § 4.04[4] at 4-315. Cases have uniformly held that such representations in such permanent storage media qualify as copies. *Id., citing, inter alia, Apple Computer Inc. v. Formula Int'l Inc.*, 725 F.2d 521, 221 U.S.P.Q. 762 (9th Cir. 1984).

However, a representation of a program in random access memory (RAM) is made with the contemplation that the representation could be eradicated within milliseconds. *See* 2 COMPUTER LAW § 4.04[4] at 4-316. Unlike representations in more permanent storage media, representations in RAM are typically made as part of a high-speed computational process, not for the purpose of permanent or stable storage. *Id.*

The issue then becomes "whether the speed at which it functions, the temporal nature of its content, and the dependence on continual power, serve to differentiate RAM, or whether the representation in RAM is nevertheless sufficient to meet the requirements for a copy." *Id.*

The House Report accompanying the 1976 revision to the Copyright Act states that "the definition of 'fixation' would exclude from the concept purely evanescent or transient reproductions such as those projected briefly on a screen, shown electronically on a television or cathode ray tube, or captured momentarily in the 'memory' of a computer." H. Rep. 94-1476 at 53. One commentator has, perhaps erroneously, taken the position that "[t]he mere display of a computer program on a screen or cathode ray tube without creating a permanent, fixed copy would not be considered a reproduction of the work, and would not be an infringement." M. SCOTT, 1 SCOTT ON COMPUTER LAW § 3.28 at 3-106 (1993), *citing* H. Rep. 94-1476 at 62 ("For a work to be 'reproduced,' its fixation in tangible form must be 'sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.' Thus, the showing of images on a screen or tube would not be a [reproduction]. . . .").

However, the Commission on New Technological Uses of Copyrighted Works ("CONTU") Final Report, issued in 1978, disputes the above statement in the House Report regarding fixation: "[t]he text of the new copyright law makes it clear that the placement of a copyrighted work into a computer . . . is the preparation of a copy. . . . Because works in computer storage may be repeatedly reproduced, they

Id. (citation omitted) (emphasis in original).[4]

The defendant in *Triad Systems* further argued that no copy was made because only a portion of plaintiff's operating system software was copied into RAM at any one time. *Id.* The court did not permit this "technical distinction" to detract from its central conclusion that "*any* unlicensed copying of [plaintiff's] software into RAM during service constitutes copying under the Copyright Act. The fact that the entirety of [plaintiff's] literary work is protected does not mean that such work must be copied as a whole before the protective shield of copyright law is activated." *Id., citing Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 564-65 & 69 (1985). *See* H. Rep. 94-1476 at 61, *supra.*

2. The Fair Use Defense

The defendant in *Triad Systems* also raised the defense of fair use. 31 U.S.P.Q.2d at 1244. The court held that although a copy is made by loading a program into RAM, the making of such a copy may constitute fair use. *Id.* at 1249. The court found that genuine issues of material fact existed concerning fair use, but nonetheless reviewed the four fair use factors[5] based on the record before it, noting, *inter alia*, that the plaintiff must show some harm to its copyright work under the first fair use factor. *Id.*at 1244–49.

3. Section 117 Limitations on Reproduction Right

In *MAI* and *Triad Systems*, the defendants did not own the programs they loaded into RAM. Rather, the defendants loaded programs owned or licensed by their customers onto their customers' computers. Had the defendants owned the software they loaded, Section 117 of the Copyright Act may have afforded them some relief.

4 The court in *Triad Systems* cited *Apple v. Formula*, 725 F.2d 521, 525 (9th Cir. 1984), for the proposition that computer programs that control the internal workings of the machine (and thus may not produce screen displays) are fully protected under the Act, quoting the Ninth Circuit's observation that the Copyright Act "makes no distinction between the copyrightability of those programs which directly interact with the computer user and those which simply manage the computer system." 31 U.S.P.Q.2d at 1243.

5 The fair use factors under Section 107 are (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work. 17 U.S.C. § 107.

gram into RAM on its own computer in order to use plaintiff's program for the express purpose of devising a means for defeating the protective function of plaintiff's software. *Id.* The court held that the copy made by the defendant was created as an essential step in the utilization of plaintiff's program, that Section 117(1) applied regardless of whether the copy was created for the purpose of carrying out the plaintiff's intended purpose, and that the defendant accordingly did not infringe plaintiff's exclusive right to reproduce its program in copies under 17 U.S.C. § 106(1). *Id.*

Some limits may exist regarding use of such a copy created by loading a program in RAM. In *Apple v. Formula*, the district court stated that (1) the copy authorized by Section 117 must be made only for the owner-user's internal use, and (2) the copy thus made by the owner-user cannot be made accessible to others. 594 F. Supp. at 622. The court drew these conclusions from the intent expressed in reports made to or by CONTU. *Id.* at 621, *quoting* R. Saltman, "Computer Science and Technology: Copyright in Computer-Readable Works: Policy Impacts of Technological Change," NBS Special Publication 500-17 (Oct. 1977) ("The right to internal use should not include the right to make the work available to outsiders via a computer network or otherwise."); *also quoting* CONTU Final Report at 39–40 ("If a copy of the work is to be stored in a computer and subsequently made accessible to others, its creation would have to be properly authorized by the copyright proprietor."). In *Apple v. Formula*, the defendant copied plaintiff's software into ROM and PROM, and then sold to the public the memory devices loaded with code. 594 F. Supp. 617. Further, defendant was not an owner-user, so Section 117 would not have applied under any circumstances. *Id.* Therefore, the court's language that "the right to internal use should not include the right to make the work available to outsiders via a computer network" may be dicta.

4. Analysis

Downloading a bitmap into the volatile video memory of a linked computer may be deemed an unauthorized reproduction of the application program in violation of 17 U.S.C. § 106(1). Such downloading from the Internet permits viewing the display of the application program running on the first computer at the monitor of the linked computer. Like the maintenance employee in *MAI* viewing the system error log, a remote user here could view the application program's display. The application program's display bitmap, represented in the volatile video

gotiation with the owners of the copyrights to those songs. The changes provided by the Act permit record companies to obtain compulsory mechanical licenses for songs that will be recorded and then distributed by digital transmission and provide a method for determining what the compulsory mechanical license fee should be when recordings are distributed in this fashion. The Act creates Section 115(c)(3), which provides that a compulsory mechanical license includes the right to distribute (or authorize the distribution of) recordings of nondramatic musical works by means of digital transmission.

It appears that most commentators are adopting a wait-and-see attitude since there is little discussion as to the effects that this Act will have on either the music industry or the on-line community. As one can imagine, this Act has been well received by the recording industry and less well received by publishers and broadcasters, since the Act means that updating to digital transmission requires broadcasters to double the fees paid to use music. As to the on-line community, the Act appears to provide sufficient guidance on the activities for which on-line providers will need to obtain either a statutory or voluntary license. As such, on-line providers should prepare accordingly when introducing audio content onto the Internet.

B. *The NII Copyright Protection Act of 1995*

The NII Copyright Protection Act of 1995 is legislation that emerged from a task force created by the Clinton Administration in 1993 to promote the development of a national information infrastructure (NII). The task force created an NII working group, which was headed by the Commissioner of Patents and Trademarks, Bruce Lehman. The NII working group published a final report (known as the "White Paper") on November 15, 1995. Shortly thereafter, identical bills were introduced into both the Senate and the House of Representatives that adopted the NII working group's recommendations for copyright law reform. The NII Copyright Protection Act of 1995 is currently in committee in both the Senate and the House of Representatives.

Following is a list of the more-relevant recommendations from the NII working group:

1. *Clarification of existing rights*—The NII working group recommends that Section 106(3) of the Copyright Act be clarified to expressly recognize that copies or phonorecords of works can be distributed to the public by transmission and that such transmissions fall within the exclusive distribution right of a copyright

because they were unwilling to pay royalties to record companies, and music publishers resisted for fear of the reduction of their royalties.

The new right is a very narrow one, because it is limited to public performances by means of "digital audio transmissions." The term "digital audio transmissions" is defined to be transmissions that are in a digital or other nonanalog format, where the transmissions are received beyond the place from which they are sent. Thus, the performance right is:

(1) for digital public performances only, which does not include analog performances, such as AM or FM broadcasts;
(2) for audio public performances of sound recordings only, which does not include the underlying music copyright or the audio portion of audio visual works (*e.g.*, music videos); and
(3) for transmissions only, which does not include public performances by other means, such as CD players, digital audio tape players, etc.

Certain types of performances are exempt from the limited right and other types of performances are subject to statutory licenses. Performances which are neither exempt nor subject to a statutory license must be licensed through voluntary negotiations with the owner of the sound recording copyright.

Section 114(d)(1) enumerates various activities that are exempt, if the activities are performed noninteractively. These activities include nonsubscription transmissions and retransmissions of radio broadcasts. "Nonsubscription transmissions" refers to transmissions to the public for which there is no charge, including radio broadcasts, retransmissions of network feeds and non-broadcast transmissions. For example, providing a noninteractive Web page that automatically plays a sound recording is exempt. However, providing such a Web page either on a subscription basis or an interactive basis is not exempt. Retransmissions of radio broadcasts are exempt under certain conditions even if a subscription fee is charged to the recipients of the re-transmission. Other exemptions are provided by Section 114(d)(1), including an exemption for a transmission within a business establishment as long as the transmission is confined to its premises or the immediately surrounding vicinity.

With respect to statutory public performance licenses, Section 114(d)(2) contains a list of conditions that, if true, qualify a subscription transmission for a statutory license. The term "subscription transmis-

liability. The working group does recognize that such circumstances or situations could be identified in the future and suggests future discussions and negotiations among the service providers, the content owners and the government.

As expected, this last recommendation has drawn a lot of criticism from the on-line industry. For example, the general counsel of America On-Line believes that on-line service providers should not be held liable since they have no way of policing what is transmitted on their networks. The general counsel likened on-line service providers to packagers or facilitators and stated that on-line providers do not, cannot, and probably should not review the content of communications that are sent on their networks.

Before drafting the White Paper, the working group held hearings during which service providers set forth a number of reasons why they should be exempted from liability or why the standard of liability should be raised. These arguments included: the volume of material on a service provider's system is too large to monitor or screen; even if a service provider is willing and able to monitor the material on its system, it cannot always identify infringing material; failure to shield on-line service providers will impair communication and availability of information; exposure to liability for infringement will drive service providers out of business, causing the NII to fail; and the law should impose liability only on those who assume responsibility for the activities their subscribers engage in on their system.

Although the working group acknowledged the service provider's argument that millions of files travel through a network in a given day, they were unpersuaded by this argument since other industries are similarly situated. For example, millions of photographs are taken to photo finishers each day by individual consumers. It is virtually impossible for these service providers to view any of these works before they are reproduced, yet they operate under existing liability standards.

Additionally, the working group reasoned that on-line service providers can take appropriate action when notified of the existence of infringing material on their systems and therefore limit their liability for damages to those for innocent infringement. The working group recognized that this problem has been absorbed by other industries as a cost of doing business.

The working group also recognized that it is the on-line service providers that are perhaps in the best position to know the identity and activities of their subscribers and to stop unlawful activities. Although indemnification from their subscribers may not reimburse them to the

This would seem desirable to make sure that those primarily concerned with the examination of applications are up to date as to changes in the intellectual property field and have a common level of understanding of this field as a result of having attended the same courses. Since both examiners and practitioners would be present at these courses this procedure would promote a mutual understanding between these individuals while giving some assurance that they approach the problems of prosecution with a common understanding of the applicable law.

If practitioners have to bear their costs in connection with such continuing education it would only seem fair that their counterparts in the PTO should also pay their own expenses, particularly in view of the relatively grave financial status of the PTO. The PTO cannot be expected to spend its limited funds to maintain those aspects of the proficiency of its' examiners when traditionally in the usual circumstance this has been the responsibility of employees and not their employers.

Respectfully
Edward D. O'Brian

RE: THE USE OF ALTERNATIVE DISPUTE RESOLUTION METHODS *FOR CIVIL ACTIONS AGAINST THE* PATENT *OFFICE*

Dear Mr. Zarfas:

Litigators versed in alternative dispute resolution (ADR) often consider it when selecting from the menu of settlement options. ADR has acquired a certain vogue in the commercial litigation street scene, but it is not necessarily limited to disputes between private parties. Recent shifts in government policy as reflected in an Executive Order several months ago may herald the advent of a new use for ADR in patent cases: arbitration of civil suits brought against the Patent and Trademark Office (PTO) under 35 U.S.C. § 145 to obtain a patent when the PTO Board of Appeals affirms an examiner's final rejection of the patent application. With the re-election of President Clinton, this option will most likely remain available during the upcoming years.

Executive Order 12988, 61 FR 4729 (February 5, 1996), concerning Civil Justice Reform, urges the use of ADR in suits against federal agencies. Historically, it was considered normal to eschew suing the PTO in favor of appealing to the Federal Circuit. But objective patent law is changing rapidly and ADR may soon find a place in the PTO under Commissioner Bruce Lehman's leadership.

Letters to the Editor

RE: MILLER ARTICLE IN JPTOS OCT. 96

Dear Mr. Zarfas:

Mr. Miller, the author of the article on provisional applications in the October 1996 issue perceptively recognized that the current problems with provisional applications should be separated into questions of (i) examining their usefulness for supporting a priority claim under the provisions of the Paris Convention, and (ii) their acceptability of establishing priority under the national laws of the country in which a priority is sought. The article also recognized that whereas lawyers cannot do much about the outcome of the first problem, they can influence the answer to the second.

The author, however, become more forensic than analytical when he editorialized outside of his assigned theme. He also gets in too deeply at the wrong end when opining that provisional applications were a means for transforming US "mentality from a 'first-to-invent' to a 'first-to-file' regime," and that "everybody seemed to be happy with the new type of filing." In fact, the monstrosity of the provisional application system (and most of the URAA legislative package that it dragged in with it) would not have been necessary at all had the legislative proposal for changing the patent term adhered to what was actually required by the GATT patent term proposals. This is the reason for patent professionals to welcome the desirable legislative proposals that would establish a minimum patent term of 17 years from issue, and entirely do away with the need for provisional applications which would then become entirely moot (except for their value for applicants from abroad enabling them to skirt the effects of *In re Hilmer*).

Unnecessary, as it was to establish a complex provisional application system, if the legislative proposal would not have overambitiously gone way beyond the GATT requirement of a minimum patent term of 20 years from filing, the system was also set up in such a poor manner that made unavoidable the bringing to the surface of doubts of its acceptability as a proper basis for a priority claim. Instead of setting up provisional applications as an organic precursor to the regular, nonprovisional application, it was rather set up as a separate kind of a filed document (not a patent application), with a stated lifetime of 1 year,

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I. INTERNET BASICS

A. *Uses of the Internet*

The growth of the Internet has signaled the beginning of a whole new age in communication, commerce, entertainment, and enlightenment. Evolving from the "ARPANET" project in the 1960's, in which a few military supercomputers were connected in order to allow users in geographically remote areas to use the supercomputers, the Internet today is estimated to connect close to 10 million computers, and is used by 20–40 million people.[1]

The Internet is used for a wide variety of purposes. **Electronic mail**, or "email," allows the transmission of written information with great speed and a nearly unlimited volume of distribution. **Bulletin Board Services** ("BBS's") such as UseNet News allow people to post information or opinions on virtually any topic imaginable to a worldwide audience, and to view the responses of others, in essence carrying on a "virtual debate" that can last for days, months, or even years. "**Telnet**" programs allow users to log into a computer from a remote location and access that computer's files and use its programs. "**File Transfer Protocol**" (FTP) allows users to copy files to and from remote computers. And finally, the "**World Wide Web**," frequently

1 Estimates vary because usage is constantly in flux and is difficult to estimate with substantial accuracy.

ticular computer on the University of Minnesota-Twin Cites campus network; thus the domain name address of that computer is "gold.tc.umn.edu." In some cases, such as at Merchant & Gould, there may be just a single name to refer to all of the hosts on the network, or there may only be one host on the network; in those cases the name of the machine would merely be the domain name (e.g. "merchant-gould.com" is both the domain name and the domain name address of the host computers at Merchant & Gould).

There are several possible levels of domain names. In the University of Minnesota example, the "tc.umn.edu" domain consisted of three levels: "edu" signifies the fact that it is a machine at an educational institution; "umn" identifies the particular institution, the University of Minnesota; and "tc" signifies the fact that it is a machine on the Twin Cities campus. All domain names have at least one level, the "top level." There are five possible top level domain names: (1) "com," designating a commercial company; (2) "gov," designating a government entity; (3) "edu," designating an educational institution; (4) "org," designating a non-profit organization; and (5) "net," designating a networking organization. In addition, some machines have another "top level country domain" added at the end of the domain name. For example, "au" signifies Australia, and "uk" signifies the United Kingdom.

The domain name is used by individuals or companies in at least two common situations. First, it will be part of an individual's email address. A lawyer at Merchant & Gould would have the email address of, for example, "dmcdonald@merchant-gould.com." The username in the email address, "dmcdonald," signifies that user's particular account on the Merchant & Gould network. Second, the domain name will necessarily be a part of the URL (Uniform Resource Locator) used by World Wide Web browsers to find the Web page[4] stored on a computer. For example, Merchant & Gould's World Wide Web URL is "http://www.merchant-gould.com." Note that "http://www" is not part of the domain name, but rather a common part of the URL.

2. Obtaining a Domain Name

Under a five-year contract with the National Science Foundation beginning in 1992, three American companies manage various aspects of the Internet: AT&T, General Atomics, and Network Solutions, Inc. (NSI). These companies adopted the name "InterNIC" for their joint

4 Web pages are text-based files written in HTML, or "Hypertext Markup Language."

The new guidelines also permit a trademark owner to challenge another's registration and use of a domain name. To do so, the trademark owner must present to the NSI evidence of a federally registered U.S. trademark or service mark identical to a registered domain. If the current domain name holder registered the domain name before either: (1) the challenger's first *use* of its trademark; or (2) the challenger's *federal registration* of its trademark, then the current domain holder can continue to use the Internet domain name while the dispute is being resolved.

In response to a trademark owner's challenge, the current domain name holder can provide proof that it too has a registered trademark corresponding to the domain name, and such proof may allow the current domain name holder to continue to use the domain name while the dispute is pending. If the domain name holder cannot meet any of the above requirements, then NSI will place the domain name on "hold status" pending resolution of the dispute, meaning that the domain name will not be available for use by any party during this time. Once the dispute is settled in court or by an arbitrator, the NSI will award the domain name to the party that prevails in the dispute.

The enforceability of the NSI Domain Name Dispute Policy is currently in question, though. In a case pending in the United States District Court for the Eastern District of Virginia, the policy is being challenged by Roadrunner Computer Systems (RCS).[6] RCS had registered the domain name "roadrunner.com" with InterNIC, but NSI placed the name on hold after Warner Brothers challenged the use on the basis of its cartoon character "Road Runner," for which it has a federally registered trademark. Although NSI later agreed not to put the domain name "roadrunner.com" on hold, NSI was still named as a defendant in the suit, and has counterclaimed for a declaratory judgment that their Domain Name Dispute Policy is valid.

II. TRADEMRAKS AND INTERNET DOMAIN NAMES

A. *Basic Principles of Trademark and Unfair Competition Law*

Trademarks and trade dress identify the source or origin of goods and services. Words, logos, designs, colors, and even scents and sounds can be marks. Trade dress is non-functional product configuration or packaging. Protecting trademarks and trade dress from infringement

6 Roadrunner Computer Systems, Inc. v. Network Solutions, Inc., Civil Docket No. 96-413-A (E.D. Va., March 26, 1996).

Intellectual Property and Privacy Issues on the Internet

Daniel W. McDonald, John C. Reich* and Scott E. Bain**

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4. Dilution

The use of a similar or exactly the same mark on goods which are completely different than those used with a valid trademark may not be likely to cause any consumer confusion, and thus would not give rise to a trademark infringement action. For example, the use of "Apple" to describe a grocery store such as "Apple Foods" may not infringe the "Apple" trademark held by Apple Computer. Formerly, this situation was particularly harmful to owners of famous marks, leaving them with no redress when others used a similar or the same mark for unrelated products.

However, Congress recently passed a "dilution" law to help owners of famous marks. Under the Federal Trademark Dilution Act of 1995, an owner of a famous mark may be provided relief even in the absence of competition or likelihood of confusion, if the other's use somehow "dilutes" the famous mark by lessening its capacity to identify goods or services.[10] The legislative history of the act indicates that dilution also includes "tarnishment" of a mark, which is another party's use of the mark in an immoral or otherwise unappealing way.

B. *The Domain Name Battleground*

1. The Conflict

Domain names are a potential hotbed for trademark and trade name conflicts for several reasons. Trademarks arise in connection with particular goods and services. Similar, even identical, word marks can be simultaneously federally registered by unrelated companies on unrelated goods. The problem of overlap is increased when non-registered marks are considered, since identical unregistered marks can be used on the same goods or services in different parts of the country for decades without any problems arising. Also, logo designs can distinguish marks whose words alone are similar or identical. Trade names are outside the scope of federal registration. Trade names can be registered as corporate names on a state-by-state basis, and variations on the corporate name actually used as trade names may not be registered at all.

In contrast, commercial domain names all are assigned a ".com" domain classification. This is true regardless of the type of goods or services or the part of the country in which any corresponding trade-

10 Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 110 Stat. 985 (codified as amended at 15 U.S.C. §1125(c), 1127 (1996)).

Federal registrations provide many benefits not specific to the Internet which are beyond the scope of this article. However, domain name registration procedures elevate the importance of federal trademark registrations. The NSI Dispute Resolution Policy puts federal registrants in the driver seat. Moreover, NSI ultimately defers to outside resolution, such as trademark litigation, where federal registrations also provide advantages.

The full clearance search also provides several benefits if a term is intended to be used widely, including on the Internet. A search may reveal that a domain name has already been taken by another company with a federal registration in the name. If that is the case, the more prudent course of action may be to avoid conflict and begin efforts to develop a different name. If the mark is available, both federally registering it and registering it as a domain name will give the greatest assurance of continuing ability to use the term on the Internet.

The federal registration of domain names as trademarks presents additional issues. The Patent and Trademark Office (PTO) will not register a mark unless it is used in commerce. Proposed marks used *only* as a domain name must be registered for the proper services. The PTO recently published a position paper on registering domain names, setting forth its current policy on this issue.[11]

Due to the first come, first served nature of NSI's registration of domain names, it is imperative to register your domain name as soon as possible. Also, it may be advantageous to register domain names which are similar to your trademark name in order to prevent competitors from possibly using the similar names to confuse consumers and trade off of the goodwill that you have created.

b. Other Avenues For Resolving Conflict

More aggressive or creative choices for protection are also available, although there is little case law to give certainty as to results. If a name is registered by another, you may be able to purchase the trademark registration either outright or with a grant-back license to use the mark granted to the prior registrant. Also, even small variations from the original proposed name and mark may pass muster by the NSI and the courts, especially if the name is used in connection with goods or services which are substantially different from the goods or services associated with the other, preexisting domain name. Purchasing the do-

11 The paper, "Registration of Domain Names in the Trademark Office", is available on the Web at "http://www.uspto.gov/web/uspto/info/domain.html."

- How closely related are the businesses of the domain name holder and challenger? Are there other factors that indicate a likelihood of confusion?
- Is there actual confusion of consumers as to whether the domain name holder and other company are the same or related?
- Are those likely to access the domain name at issue sophisticated, careful users or casual users more likely to be confused?
- Is there any indication that the domain name holder acted with intent to exploit the other's mark, or was the adoption of the name in good faith?
- Did the challenger of the domain name holder act promptly to enforce its rights?
- Has the domain name holder built up substantial goodwill or business through its domain name that would make an injunction prejudicial?

In short, a challenge to a domain name holder is likely to involve a fact-intensive inquiry. As the above list suggests, prompt action to stop use of confusingly similar domain names will make enforcement much easier. Periodic searches may be helpful, as well as generally notifying employees to contact the proper person if they become aware of any suspicious activities on the Internet. Several search services are available, including Thomson & Thomson, and Dow Jones' Markwatch. These searches may also provide leads as to infringement in other media besides the Internet.

C. *Other Trademark Issues*

Generally, using the trademarks of others, even competitors, is permissible only if such usage is for truthful, verifiable comparative statements that do not create a likelihood of confusion. Therefore, the mere appearance of your mark as, for example, a hypertext link or a Web page of another, may be infringing if it is used in an inaccurate context, or gives the misimpression that the user is sanctioned, licensed, or otherwise associated with you. For instance, Sprint was precluded by NSI from registering the domain name "mci.com" because it contained the "MCI" trademark and would lead consumers to believe that MCI was somehow affiliated with that Internet location.

One of the leading cases on trademark infringement as to *content* on the Internet is *Playboy Enterprises v. Frena.*[15] Defendant Frena's

15 839 F. Supp. 1552 (M.D. Fla. 1993).

The requirements for copyrightability are that a work must be original (i.e., must be made by that author), must possess some "modicum of creativity,"[20] and must be "fixed in a tangible medium of expression" (e.g., embodiment in a hard copy or electronic copy or phonorecord).[21] Unlike a patent, copyright requires no novelty or "inventive leap." However, copyright cannot protect ideas, concepts, systems, or discoveries. It protects only the concrete *expression* of an idea, not its functionality. Thus a copyrighted work is easier to "design around" than a patented one.[22]

The test for copyright infringement has two parts. First, the accused work must be a "copy" of the copyrighted work (i.e., it must be "substantially similar" to the copyrighted work). Second, the accused work must have been *actually copied* from the copyrighted work, as opposed to coincidentally similar or independently created.[23] Even if you do not *directly* infringe a work, however, you can still be held liable for *vicarious* or *contributory* infringement. Vicarious infringement can be claimed in certain cases where a fiduciary duty exists, such as that of an officer of a corporation who knows of the infringement.[24] Liability for contributory infringement is incurred whenever one knowingly induces or materially contributes to infringement by another.[25]

A commonly claimed *but narrowly construed* defense to infringement is "fair use." Generally, four factors are examined to determine whether fair use applies: (1) purpose of the infringing use; (2) nature of the copyrighted work; (3) amount and substantiality of the portion copied in relation to the copyrighted work as a whole; and (4) the effect of the allegedly infringing use on the market for the copyrighted work.[26] The most important of these factors is the fourth; destruction of the market for the copyrighted work probably precludes a finding of fair use.[27] Other possible defenses to infringement are that the accused in-

20 Although the requisite level of creativity is quite small, the requirement does exist. Feist Publications, Inc. v. Rural Telephone Service, 499 U.S. 340 (1991).

21 17 U.S.C. § 102 (1996).

22 Baker v. Selden, 101 U.S. 99 (1879).

23 Whether a work was actually copied is usually determined by a "sliding scale" test measuring proof of (a) the defendant's *access* to the copyrighted work, and (b) the *level of similarity* between the accused and the copyrighted work. The stronger the similarity, the lesser the proof of access that is required. *Arnstein v. Porter*, 154 F.2d 464 (2d Cir. 1946).

24 *See, e.g.*, Boz Scaggs Music v. KND Corp., 491 F. Supp. 908 (D. Conn. 1980).

25 Gerschwin Publishing Corp. v. Columbia Artists Mgt., 443 F.2d 1159 (2d Cir. 1971).

26 17 U.S.C. § 107 (1996).

27 Harper & Row Publishers, Inc. v. Nation Enterprises, 723 F.2d 195 (2d Cir. 1983).

2. In Which Aspects of Your Web Page Do You Own Copyright?

There are at least five components of a Web page that may be copyrightable: (1) content created by the company which wants the Web page (e.g., text, photographs, graphical designs, etc.); (2) content created by the Web site developer specifically under the Web site development contract; (3) pre-existing software modules (i.e., the code itself); (4) software modules created specifically for the Web site; and (5) non-functional and non-factual aspects of the graphical user interface.[29]

Copyright in the Web site also could possibly extend to the way in which the Web page operates, as some Web pages perform certain functions or allow user interaction much like software on a stand-alone computer. However, the copyright doctrines purporting to protect this "structure, sequence, and organization"[30] (SSO), or "look and feel," or "graphical user interface"[31] appear to have fallen into disfavor. So, the status of copyright protection for these elements is dubious.

C. *Practical Guidelines and Tips*

1. Use Development Agreements

Because many organizations hire other people to design and implement their Web sites, and because the individual elements that are used in the Web site may have many separate copyright owners, determining copyright ownership of the Web site can be a big headache. The best way to avoid having problems with ownership of your Web site is to negotiate all rights *before* development begins.

As discussed above, under the work made for hire doctrine, if an employee designs the Web site *within the scope of her employment*, then the employer will be deemed the author.[32] If, however, an independent developer is used, then work made for hire will not apply. In this case it is necessary to obtain a *written* agreement from the parties developing the Web page (including the GUI designers as well as the software programmers), expressly assigning all copyrights resulting

29 The computer screen display can be protected, and even registered if a printout of the screen is deposited with the Copyright Office. 37 C.F.R. § 202.20(c)(vii)(C) (1995).

30 Whelan Associates v. Jaslow Dental Laboratory, Inc., 797 F. 2d 1222 (3d Cir. 1986), *cert. denied* 479 U.S. 1031 (1987).

31 Apple Computer, Inc. v. Microsoft Corp., 799 F. Supp. 1006 (N.D. Cal. 1992).

32 Note that if it is not within the employee's *scope of employment* to design graphical user interfaces or write software or do any of the other things involved with creating a Web page, then the work is not a work made for hire.

Web page as well as a listing of the company's copyrights and trademarks. Appendix A provides a list of Web sites of a few companies which have such a general notice linked to their page.

4. Do Not Rely on Copyright to Protect any Functionality of Your Web Site

It is better to seek patent protection if you are concerned about protecting anything other than the expressive elements in the program. In *Lotus v. Borland*,[36] Lotus sought to protect the menu command hierarchy in its computer spreadsheet program, which was copied by Borland in its "emulation" function in its spreadsheet program. The court ruled that Lotus' menu command hierarchy was an uncopyrightable "method of operation," since the user's selection of any command in the menu corresponded to a particular *operation* by the computer.

In summary, copyright protection for software, such as a Web site, is only effective for: (1) the elements of the software which are not in the public domain;[37] and (2) the elements of the software which are not functional.[38] For example, the literal code itself can be copyright protected, as can an icon on the screen. However, patent protection, which is discussed below, is the better alternative for the other elements of the software.

IV. PATENTS

A. *Basic Principles of Patent Law*

A patent is a federal right which allows an inventor to exclude others from making, using or selling the invention for a limited period of time. It is in effect a contract between the inventor and the government: the inventor fully discloses in the patent application information relating to the new technology and how to practice the invention. In exchange, the government (after publishing the patent) grants the patentee an exclusive right for the invention for the term of the patent. In contrast to a copyright, which is limited to narrow protection for the *particular expression* of an idea, a patent provides broad protection for the *invention or idea itself* (including its functionality). Also, a patent protects against *independent* development of the invention by others, as opposed to only protecting against *copying*.

There are three different types of patents. "Utility patents" cover technological innovations in products or processes, and last for 20 years

36 Lotus v. Borland, 49 F.3d 807 (1st Cir. 1995), *aff'd per curiam*, 116 S.Ct. 804 (1996).
37 Apple Computer, Inc. v. Microsoft Corp., 799 F. Supp. 1006 (N.D. Cal. 1992).
38 Lotus v. Borland, 49 F.3d 807 (1st Cir. 1995), *aff'd per curiam*, 116 S.Ct. 804 (1996).

The scope of a utility patent is determined by its "claims," which define the property right in the invention. The test for infringement is thus whether another invention "reads on" the claims of a patent, either literally or by application of the "doctrine of equivalents."[48] A design patent, on the other hand, has but one claim that refers to the drawing which consists of a picture of the design. Infringement is determined by comparing the accused design to the patented design. If, in the eyes of the "ordinary observer," the two designs are substantially the same, so as to deceive the observer to believe that one is the other, then there is infringement.[49] However, because a design patent cannot cover functional aspects, courts have also applied a supplementary "point of novelty" test. Even if the two designs are substantially the same to an ordinary observer, if the accused design only takes *functional* aspects from the patented design, then there is no infringement—similarity must be attributed to some *novelty* of the patented design.[50]

B. *Possibility of Design Patents for Designs on Web Pages*

Although icons on a computer screen clearly satisfy the "design" requirement for design patents, it had until recently been unclear whether they satisfied the requirement of embodiment in an "article of manufacture." However, in March, 1996, the PTO released its Guidelines for Examination of Design Patent Applications For Computer-Generated Icons, which state that "... if an application claims a computer-generated icon *shown on a computer screen, monitor, other display panel*, or portion thereof, the claim complies with the 'article of manufacture' requirement of §171."[51]

Therefore, certain visual aspects of a World Wide Web page, such as ornamental icons, can be the subject of a design patent. With respect to the graphical user interface, a design patent provides stronger protection than copyright, making it more difficult for competitors to get away with closely but not exactly copying the icons. It is important to remember that you cannot obtain a design patent to cover functional aspects of a display or graphical user interface. An example might include a pull-down menu.

48 A patent claim is literally infringed if every element described in the claim is present in the accused product; a claim is infringed under the doctrine of equivalents if every element *or an equivalent thereof* is present in the accused product.

49 Gorham Co. v. White, 81 U.S. 511, 528 (1871).

50 Litton Sys. Inc. v. Whirlpool Corp., 728 F.2d 1423 (Fed. Cir. 1984).

51 Guidelines for Examination of Design Patent Applications for Computer-Generated Icons, 61 Fed. Reg. 11380 (1996) (emphasis added).

then the inventor may be better off relying on copyright protection, which is inexpensive and applies instantly.

2. Consider Other Applications and Markets for the Technology

If the technology has potential uses beyond the specific Web page layout or related software developed, then patenting may be a good idea. Not only does a patent provide an added deterrent to copying, but also, it provides a stronger basis for licensing the technology to others or for expanding the market for the technology. Absent a patent, others may more easily design around the invention and use it without paying for it.

3. Act Early in Order to Avoid Statutory Bars

It is important to remember that no U.S. patent can issue if the application is filed more than one year after the invention is first "described in a printed publication in this or a foreign country or in public use or on sale in this country."[54] This is called a statutory bar. After this one-year grace period, the invention has fallen into the public domain no longer can be retrieved. Most foreign countries have even more stringent requirements.

Using the Internet is a particularly easy way to inadvertently start the clock running on a statutory bar resulting from public disclosure of an invention. For example, bulletin board systems (BBS's) are generally considered to be a public forum, and so any information posted on a BBS, such as a Usenet discussion group, is generally deemed to be a printed publication and will start the clock running on a statutory bar. Even Email could trigger the one-year statutory clock if it discloses the invention without confidentiality restrictions.

4. Always Mark Your Patented Technology With a Notice of Patent

In any on-line presentation of a patented product, such as downloadable software or a software program running on the Internet or information regarding a patented product, you should provide notice to the public that the same is patented (or a patent is pending) by fixing the word "patent" or the abbreviation "pat." together with the patent's number (or "pending," if the application has been filed but the patent has not yet issued) adjacent to the invention or information. A failure to mark the patent number may limit damages for infringement.

54 35 U.S.C. § 102(b) (1996).

inal deterrents to such activities give insufficient reassurances because most laws are written in B.I. (Before Internet) language. The problem of industrial espionage has risen to a sufficient level of concern to be the subject of pending federal legislation. At the same time, the continued wide variations in computer literacy and skills may leave many ignorant of the risks and vulnerable to theft of trade secrets. Where a secret can be lost by the push of a button, lack of corporate policies and procedures makes transferring trade secrets particularly tempting and risky.

C. *Technical Solutions*

While details are beyond the scope of this presentation, several new technologies create higher levels of security on the Internet. One, encryption, encodes or scrambles Email messages so that they cannot be intercepted and read by an unauthorized party. While some encryption methods may be subject to federal export controls, encryption nevertheless is an option currently available.

Another technology, firewalls, is used to block unauthorized access to a company's network. Internal firewalls are also available to guard against internal access by unauthorized employees.

D. *Practical Guidelines and Tips*

1. Issues to Consider When Reevaluating Your Trade Secret Policies

While technical solutions will be important, corporations would be wise to use the Internet as an opportunity to reevaluate trade secret policies and employee education generally. In an age of frequent job changes, loss of trade secrets through ex-employees remains an ever-increasing concern. The reevaluation should consider the following issues:

- Have employees been told that the company has trade secrets which should only be disclosed under restricted conditions?
- Are trade secrets marked or distinguished sufficiently for employees to recognize they are trade secrets? Are employees told to maintain such markings on materials copied or transmitted by electronic or other means?
- Do employees sign agreements acknowledging the duty to protect trade secrets?
- Are employees told that Emails may be monitored for reasons including protecting trade secrets?

- All Email messages and computer files are property of the firm, and subject to monitoring by the firm.
- In order to protect company proprietary information, do not assume that deleting a message renders it unrecoverable—it is in fact usually recoverable.
- Email messages are discoverable in litigation.
- Files downloaded from other sources, such as the Internet or floppy diskettes, should be scanned through a virus checking program.

VI. Final Thoughts: the Internet as an Enforcement Tool

The Internet can be an important tool in preventing intellectual property misuse. Internally, the Internet can provide easy access to corporate policies such as trade secret protection measures, usage guides to corporate trademarks (including proper examples of proper logo and trademark usage), patent number marking instructions, copyright notices, and the like. Employees using the Internet usage guides will always have the current version, unlike written manuals which can be mistakenly used long after they are outdated.

Externally, the Internet can provide notice to the world of a corporation's commitment to defending its intellectual property, identify key corporate trademarks and patents, provide distributors or others down the distribution chain with guidelines as to trademark usage, and provide a forum to ask questions. Appendix A provides examples of some corporate Web sites, as well as some Web sites addressing intellectual property issues.

As with any new technology, the Internet provides a weapon which can either destroy or defend intellectual property assets. The key to benefiting from the Internet is to be pro-active and understand the intellectual property basics.

Conclusion

The Internet has created more questions than answers to intellectual property issues. However, early cases and legislative efforts suggest that courts facing Internet issues will attempt to apply traditional principles of intellectual property law to this new form of communication. Understanding the basic principles will minimize the risk of unexpected results in intellectual property matters.

(4) THOMAS Legislative Information on the Internet—http://thomas.loc.gov
Published by the Library of Congress, this is the best source of legislative information on the Internet. It includes full text of all legislation of the last 2 Congresses, full text of Congressional Record, bill summaries and status reports, and a full text of the U.S. Constitution.

(5) Law Journal Extra—http://www.ljx.com
Published by The New York Law Publishing Company, LJX is a daily source of legal news, including articles about recent cases and legislation, as well as information about the legal marketplace.

(6) Freeny Patent Litigation
Plaintiff's Site (E-Data)—http://www.3wnet.com/corp/edata
Defendants' Site—http://www.patents.com/ige.sht
E-Data is the owner of U.S. Patent No. 4,528,643 (the "Freeny patent") which describes "a system for reproducing information in material objects at a point of sale location." E-Data is now aggressively asserting its rights to collect licensing fees from virtually everyone distributing digital data (including software, video, audio) via the Internet or disk, and has sued 18 companies and sent out "Amnesty letters" to 75,000 organizations demanding a license agreement. The two web sites listed above track the legal developments involving the Freeny patent, and list defendants named thus far along with contact information for each of them.

(7) Berkeley Technology Law Journal—http://server.berkeley.edu/BTLJ/
Abstracts of scholarly articles on technology and intellectual property law topics, updates and information about recent court decisions, and a full-text, searchable database of article abstracts.

(8) Federal Court Locator—http://www.law.vill.edu/Fed-Ct/
A database of the full text of recent opinions issued by the Supreme Court, the Circuit Courts of Appeals, and Federal District Courts, searchable by keyword (and it is FREE).

Resource Locators (Which List Other Online Sources of Legal Information):

(1) Yahoo!—http://www.yahoo.com
Hierarchical-structured menu of links on the Internet, also includes keyword-search capability, published by Yahoo!

To Promote the Progress of Useful Arts: American Patent Law and Administration, 1787–1836 (*Part 1*)

Edward C. Walterscheid

I: Introduction and Overview

The Patent Act of 1836[1] is generally acknowledged to be the foundation for the modern patent examination system in the United States. It created the Patent Office, a corps of examiners, modern interference practice, administrative appeal practice, and the modern patent numbering system. But what is frequently forgotten or ignored is that the patent system it created came into existence predicated on—and in no small measure in reaction to—decades of prior administrative practice under a detailed statutory scheme which had received rather extensive judicial interpretation. Almost ten thousand patents had been issued by 1836. There thus was a significant background, both legal and administrative, against which to view the Act of 1836.

A. *Purpose of This Work*

Almost with the creation of the federal republic, the United States sought to have a patent system. Just as England had, it would quickly discover that establishing a patent custom was one thing, but transitioning it into a patent system was quite another. Much has been written about the debt which the United States patent system owes to its English antecedents, yet it is something of a misnomer to call the English patent custom prior to 1800 a patent system.[2] A major reason why that early

1 Act of July 4, 1836, 5 Stat. 117.

2 In a seminal work, Christine MacLeod has sought to explain how a patent *system* developed in England. While her major emphasis may be said to be on the administrative aspects of that development, she makes abundantly clear that the creation of an effective patent system as such was dependent on the development in consonance of applicable legal principles under a rule of law. C. MacLeod, Inventing the Industrial Revolution, The English Patent System, 1660–1800 [hereafter English Patent System] (Cambridge 1988). She begins her work with an admission that "[b]etween 1660 and 1800 the 'patent system' was something of a misnomer." *Id.* at 1. Cf. D. Seaborne Davies, *Further Light on the Case of Monopolies,* 48 L.Q.R. 394 (1932) who states "the Patent System was introduced into England *as a system* in the second year of Elizabeth's reign." *Id.* at 396. See also W. H. Price, The English Patents of Monopoly (Boston 1906) who contends

tution in 1787 to the enactment of the Patent Act of 1836 which created the basis for the modern patent system. It was during this time frame that the transition from patent custom to patent system occurred, although the final stage in that transition can only be said to have been reached with passage of the Act of 1836. Early in the intervening period two organic patent acts, quite different in their basic philosophy and mode of practice, were enacted. The first, the Patent Act of 1790,[7] created an examination system that was ahead of its time. It would last only three years, to be repealed by the Patent Act of 1793[8] which in turn established a registration system akin to the English system. In the next forty years, five additional patent acts would be passed,[9] all for the purpose of correcting some perceived deficiency in the coverage of existing legislation. In view of its fundamental defects, it is remarkable that the Act of 1793 remained in effect as long as it did.

C. *Interpretational Framework*

The statutory law thus created was federal law, not state law.[10] It was a necessary but not a sufficient condition for the transition from patent custom to patent system in the United States. As in England there remained the need for judicial interpretation not only of the statutory framework but of the voids and interstices left in that framework. Early on, also as in England, there was the perceived problem of a dearth of reported case law on which to base such interpretation.[11]

7 Act of April 10, 1790, 1 Stat. 109.

8 Act of February 21, 1793, 1 Stat. 318.

9 Act of June 7, 1794, 1 Stat. 393; Act of April 17, 1800, 2 Stat. 37; Act of February 15, 1819, 3 Stat. 481; Act of July 3, 1832; 4 Stat. 559; and Act of July 13, 1932, 4 Stat. 577.

10 At the time the Constitution was ratified, a patent custom existed in a number of states whereby exclusive rights were granted by private legislative enactment. There was nothing in the Constitution which precluded states from continuing to issue patents, but the advent of a federal patent system was viewed by almost everyone as removing any need for state patents. A few states, most notably New York, would continue to issue state patents for several decades.

11 In England the lack of adequate case law—and more specifically the lack of adequate reporting of such case law as existed—was spelled out in a report to the Committee of Patentees in 1785:

> It ... would seem very reasonable to be expected that the Law Books, which in general furnish very full statements of the modern Law should furnish much light and information in the matter of Patents. The fact is however otherwise, for whether it has happened that Questions between Patentees, or about Patents have commonly been Questions of fact and not of law, which I take to be the Case, or that general Questions of Law on the Subject have never been brought forward on any important Trial, or from whatever cause it has arisen, it may with truth be said that the books are silent on the subject and furnish no clue to go by, in agitating the question "What is the law of Patents?"

Quoted from Eric Robinson, *James Watt and the Law of Patents*, 13 Technology and Culture 115, 116 (1972). Ten years later, Chief Justice Eyre would state the problem more succinctly, complaining that "[p]atent rights are no where that I can find accurately discussed in our books."

patentability. But before there could be a resort to case law, English or American, more fundamental problems had to be addressed.

Aside from its relationship to the common law of patents, two underlying issues had to be resolved in the creation and early development of the United States patent law. The first had to do with the nature of the patent grant and the second had to do with the fundamental authority of the federal government to even make such a grant. The transition from a patent custom to a patent system came about both in Great Britain and the United States through the recognition of patents as a type or form of property rather than merely a privilege.[15] From its early development, then, the patent law should be recognized as property law, albeit a very specialized form of property law. But it was only when patents came to be clearly recognized as property that patent law developed as a distinct area of the law.

The second issue had to do with the fact that the United States came into being as a federation of thirteen existing states.[16] By and large, national governments today—as indeed was the case toward the close of the eighteenth century—are recognized as being vested with any and all powers necessary to govern, except as such power might be limited by a national constitution. It is assumed, in the natural course of things, that all political power resides in the national government and that political subdivisions are administrative units granted only such power as the national government is willing to delegate. With the notable exception of Great Britain, there were few nations in the eighteenth century with recognized constitutional limitations on the power of the government. But it was precisely because of the British history of unwritten constitutional law and practice, that the principle was known and understood in the infant United States.

Indeed, one of the arguments used to support the right of the American colonies to revolt was that the government of Great Britain had violated the unwritten English constitution in the manner in which it had sought to govern the colonies. The need of the people to have constitutional limits on the governing authority was plainly recognized as the various states quickly adopted constitutions during and immediately after the American Revolution. But it was one thing to limit the rights of state government by a state constitution and quite another to

15 For a discussion of the English views up to 1800 on the nature of the patent grant and the legal rights conferred thereby, see generally MacLeod, English Patent Law; Dutton, Patent Law; and W. Holdsworth, 7 A History of English Law (London 1932) at 516–542.

16 The content of this and the next paragraph is taken in part from C. Collier and J. L. Collier, Decision in Philadelphia, The Constitutional Convention of 1787 (New York 1986) at 184–185.

Among the powers retained by the states were the right to issue patents or otherwise grant rights with respect to inventions and discoveries.

The new federal government defined by the Constitution went into effect on March 4, 1789 and the first session of the first Congress extended from that date to September 29, 1789. During that first session, the Congress received various petitions praying for exclusive rights in both literary works and inventions, as well as a bill to promote the progress of science and useful arts by securing to authors and inventors the exclusive right to their respective writings and discoveries. It failed to act on either the petitions or the bill.[21]

Early in its second session, which ran from January 4 to August 12, 1790, the Congress produced the first patent statute, and President Washington signed it into law on April 10, 1790. It had taken slightly more than a year for the new federal government to provide a mechanism for securing to inventors exclusive rights to their discoveries, but when it did so, it created the beginnings of a patent law that, while founded on common law precepts, was uniquely American.

E. *The Background*

In seeking to understand the origins of our patent law, it is necessary to inquire into the foundations of the constitutional language as well as the congressional response to it. Why did the Framers even mention inventors in the Constitution, much less empower the Congress to grant them exclusive rights, albeit for limited times, in their discoveries?[22] Why did the Congress in turn use the vehicle of letters patent to grant inventors exclusive rights to their inventions?

The answer, of course, is that neither the constitutional language nor the Patent Act of 1790 were framed out of whole cloth. At the time the United States transitioned to the federal form of government, the patenting of inventions had been known and practiced for centuries. As

21 See, e.g., R. A. Klitzke, *History of Patents—U.S.*, in R. Calvert, ed., The Encyclopedia of Patent Practice and Invention Management 394 (New York, 1962); A. H. Seidel, *The Constitution and a Standard of Patentability*, 58 J.P.O.S. 5, 23, 24 (1966); Anon., *Proceedings in Congress During the Years 1789 and 1790 Relating to the First Patent and Copyright Laws*, 22 J.P.O.S. 243 (1940); and P. J. Federico, *The First Patent Act*, 14 J.P.O.S. 237 (1932). Klitzke states that "[d]uring the session about eighteen individual petitions were received, most of them for patents . . .". *Op. cit.* at 397.

22 The intellectual property clause is unique in all of the enumerated powers granted to the Congress in setting forth a specific mode of the exercise of the power. If the Framers had followed their usual practice, this clause would have said nothing about inventors and their discoveries, or for that matter nothing about authors and their writings, but instead would have said only that the Congress is granted authority "to promote the progress of science and useful arts."

Although the patent custom did not originate in England,[26] it began to flourish there during the reign of Elizabeth I. But it was not until the Statute of Monopolies was enacted in 1623 that the custom was given a statutory basis. It arose from a particular exemption to the general ban on monopolies set forth therein, namely that

> . . . any declaration before mentioned shall not extend to any letters patent and grants of privilege for the term of fourteen years or under, hereafter to be made, of the sole working or making of any manner of new manufactures within this realm, to the true and first inventor and inventors of such manufactures, which others at the time of making such letters patent and grants shall not use, so as also they be not contrary to law, nor mischievous to the State; the said fourteen years to be accounted from the date of the first letters patents, or grant of such privilege hereafter to be made, but the same shall be of such force as they should be if this Act had never been made, and of none other.[27]

This statutory language together with the common law judicial opinions interpreting it provided the legal basis for the English patent custom that existed in 1787.

But most of the common law judicial opinions that were reported had only recently been issued and there were not many. During the seventeenth century, there were only three reported common law cases relating to patents for invention and two had occurred prior to 1623. In the first half of the eighteenth century, there were no reported common law patent decisions. In the second half the available data suggests that perhaps 22 reported patent cases came before the superior courts of London.[28] The first occurred in the 1760s, followed by four in the 1770s, nine in the 1780s, and eight in the 1790s.[29]

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important one, for as Machlup points out, "it is almost embarrassing how often the controversial idea of a property right in *invention* is confused with the noncontroversial idea of a property right in a *patent*." See F. Machlup, *An Economic Review of the Patent System*, U.S. Senate, Committee on the Judiciary, 85th Cong., 2d Sess. (1958) at 53.

26 It is now clearly established that the custom of granting limited term monopoly privileges to inventors or importers for introducing new trade or industry began in the Italian city-states and particularly in Venice late in the fourteenth and early in the fifteenth century. From there it spread to Germany, France, the Netherlands, and England. See, e.g., Walterscheid, 76 J.P.T.O.S. at 689–715.

27 21 James I, c. 3, § 5.

28 During this period, these courts appear to have been the major available venue for patent cases. While it now appears that some patent cases were tried outside London, there is no easy way of determining this.

29 Dutton, Patent System at 71. Dutton states that the first common law case in the eighteenth century was *Dolland's Case* (also frequently referred to as *Dollond's Case*) in 1758, but the more likely correct date for it is 1766.

Nonetheless, on the eve of the constitutional convention in 1787, the defects of the state patent custom had become obvious.[35] As one observer at the time concluded, "a patent can be of no use unless it is from Congress, and not from them until they are vested with much more authority than they possess at this time."[36]

F. *The First Patent Act*

Unlike the Framers, however, the individuals who actually drafted the first patent bills which ultimately resulted in the Patent Act of 1790 had considerable knowledge of the English case law and patent practice as it existed through 1788. Indeed, a Senate committee report on the bill which ultimately became the Act of 1790 stated that with but two exceptions "[t]he bill depending before the House of Representatives for the promotion of useful arts is framed according to the course of practice in the English Patent Office."[37] Before all was said and done, however, the Congress would amend the bill in two ways that would render the first United States patent law uniquely different than that of any other country that had espoused the patent custom.

Thus the Patent Act of 1790 did not incorporate a registration system[38] such as that of Great Britain but instead required a form of examination to determine whether the invention was "sufficiently useful and important" to warrant the issuance of a patent. This was the first statutory enactment by any country obligating any form of examination to determine whether a patent should be granted.[39]

A second critical and indeed fundamental distinction involved the manner in which the United States would come to define novelty. Novelty is a *sine qua non* for patentability. From the inception of the patent

were almost never called patents either.

35 Central among them was the inability to enforce such grants outside the jurisdiction of the particular state. But it was also recognized that there was no consistency in the grants and that the terms and conditions varied from grant to grant.

36 B. Bugbee, The Genesis of American Patent and Copyright Law [hereafter Genesis] (Washington, D.C. 1967) at 90, citing communication from F. W. Geyer to Silas Deane, May 1, 1787 (?) quoted in C. P. Nettels, The Emergence of a National Economy, 1776–1815 (New York 1962) at 101n.

37 *Proceedings*, 22 J.P.O.S. at 363.

38 Under a registration system no attempt is made to determine the validity of the patent grant or the utility of the invention. Rather, the patent is routinely issued when the ministerial requirements are met and the requisite fees paid.

39 Other countries had from time to time required some form of examination to determine whether a patent should issue, but the United States was the first to make examination a statutory requirement. See F. D. Prager, *Examination of Inventions from the Middle Ages to 1836*, 46 J.P.O.S. 268 (1964).

been briefly tried and found wanting—not so much because examination was considered to be unworkable or undesirable, but rather because the task of examination was found to be too burdensome for the senior government officials assigned responsibility for it.[43] There were two obvious alternatives, either to have the examination performed by someone who could devote full time to it,[44] or to adopt a registration system akin to that being used in Great Britain. In the Act of 1793 Congress opted for the latter approach. Exactly why cannot be stated with certainty. However, as the eighteenth century was drawing to a close, the British scheme of patenting appeared to be functioning rather well, and a registration system such as that of the British had the distinctly laudatory advantage of minimizing the role of government and hence the expense in implementing a system of patents.[45] Moreover, although he would many years later seem to change his mind, Jefferson early on proposed registration in lieu of the examination system under the Act of 1790 which so burdened him as Secretary of State.[46] His views at the time were most likely determinative.

As Jefferson promptly informed a correspondent, under the Act "the business of issuing patents was referred to the department of state, from which they are given out as a matter of right on the party's complying with certain conditions of law."[47] Although it was not obvious from the actual language of the statute that those responsible for issuing patents were required to issue patents they knew to be invalid or fraudulent, nonetheless, the administrative practice of routinely issuing patents to all who complied with the ministerial requirements and paid the $30 fee quickly became established. As a result, a significant number

43 Only 57 patents would issue under the Act of 1790.

44 As Joseph Barnes had recently proposed. See his Treatise on Justice, Policy, and Utility of Establishing an Effectual System of Promoting the Progress of Useful Arts, by Assuring Property in the Products of Genius (Philadelphia 1792). Barnes' proposal is addressed in Part 7 of this work. A variation on this theme would have been to have a committee of natural philosophers examine an invention to determine if it was worthy of a patent. In a letter to Thomas Jefferson dated June 6, 1789 James Rumsey had noted that the French had followed this approach which he considered to be a good one. For Rumsey's letter, see Julian P. Boyd, *et al.*, eds., 15 The Papers of Thomas Jefferson 170–172 (Princeton 1958). Rumsey was indeed correct in stating that France had tried examination by learned academicians (which he called "philosophical Characters"). See, e.g., Prager, 46 J.P.O.S. at 273–288; and L. Hilaire-Perez, *Invention and the State in 18th-Century France*, 32 Technology and Culture 911 (1991).

45 At least it was so perceived at the time. See, e.g., Part 7 of this work.

46 Jefferson's draft bill proposing a registration system is reproduced in 22 The Papers of Thomas Jefferson at 359–361.; in Paul Leicester Ford, ed., VI The Works of Thomas Jefferson 189–193 (New York 1904).

47 See letter, Jefferson to Ernst Frederick Guyer (April 26, 1790), in 25 The Papers of Thomas Jefferson at 589.

U.S. cases coupled with the statutory changes enacted to 1836 that would demonstrate the nature of the evolution of the patent law during the era of registration, i.e., 1793–1836.

During the era of registration there would be a fair amount of comment—both public and private—about the perceived defects in the patent law. The views expressed generally fell into three categories. Inventors early on sought, albeit without success, to have the patent term lengthened or term renewal or extension authorized. Other observers sought to have the law amended to authorize patents of importation, again without success. Finally, there would be a rising chorus of complaint about fraudulent or worthless patents issued under the Act of 1793. It would be this concern that would ultimately result in the major changes brought about by the Patent Act of 1836.

I. *A Different Era*

While a present-day patent practitioner would recognize many of the administrative and substantive issues that would arise during the five decades covered by this work, it is important to recognize that it was a different era, with the patent system and patent law being perceived to be primarily for the purpose of rewarding inventors with public benefits accruing only incidently to this primary purpose. Indeed, as late as 1831 a Supreme Court justice in his capacity as circuit judge would state that "congress have declared the intention of the law to be to promote the progress of useful arts by the benefits granted to inventors; not by those accruing to the public."[49]

The modern view that "[t]he patent law is directed to the public purposes of fostering technological progress, investment in research and development, capital formation, entrepreneurship, innovation, national strength, and international competitiveness"[50] would have been almost completely foreign. Lip service would certainly have been given to the concept of fostering technological progress (it was called promoting the progress of useful arts[51]) if for no other reason than that it was a part of the constitutional language, but the remainder of these purposes would have been totally alien. In modern economic theory and practice, no attempt is made to justify the patent system on the rationale that it is intended to reward inventors. Yet this was presumed to be a primary

49 Whitney v. Emmett, 29 Fed. Cas. 1074, 1082 (Case No. 17, 585) (C.C.E.D. Pa. 1831).

50 Circuit Judge Newman, concurring in Hilton Davis Chem. Co. V. Warner-Jenkinson Co., 62 F.3d 1512, 35 U.S.P.Q.2d 1641, 1660 (Fed. Cir. 1995).

51 The Patent Acts of 1790 and 1793 were both entitled "An Act to Promote the Progress of Useful Arts."

fluenced the actual language used. It discusses the question of whether the intellectual property clause was intended to protect an existing inherent property right with respect to—although not in—invention or was instead intended to create such a right and how the Supreme Court ultimately answered this question in 1834. Finally, it reviews the early congressional views on whether the intellectual property clause was intended to limit the promotion of the progress of science and useful arts to the granting of the exclusive rights set forth in the clause.

Parts 4 and 5 establish the background against which the Patent Act of 1790 was enacted and how and why it came to have its particular content. Its English antecedents are noted as are its departures from those antecedents. Part 4 refers to the various patent petitions received by the Congress and the initial attempts to deal with them. It then discusses in detail the content of the patent portion of H.R. 10, which was the first combined patent and copyright bill. Part 5 begins by noting Washington's concern that the Congress had failed to enact a patent statute in its first session and how Congress sought to resolve the matter. It briefly reviews the patent petitions continuing to come in and then discusses the only private patent bill seriously considered by the first federal congress, i.e., H.R. 44, known as Bailey's Bill. Its primary emphasis, however, is directed to H.R. 41, which in amended form ultimately became the Patent Act of 1790. Considerable attention is paid to why the provision of H.R. 41 expressly authorizing patents of importation was deleted.

Part 6 looks to the actual practice under the Act of 1790. The role of the patent system perceived by Hamilton in his *Report on the Subject of Manufactures* is reviewed with the idea of ascertaining why he believed that patents of importation, although highly desirable, could not be used to encourage manufacturing in the United States. The only known patent case involving a patent issued under the Act of 1790, *Evans v. Chambers*, is analyzed. Finally, a detailed description is provided of the administrative practice of the patent board created by the Act of 1790. In particular, the difficulties of the board with regard to issues of priority of invention are discussed.

Part 7 focuses on the enactment of the Patent Act of 1793. It begins with a brief look at why the Act of 1790 was found wanting, and goes on to address the much-misunderstood role of Jefferson in the formation of this Act. The three bills, H.R. 121, H.R. 166, and H.R. 204, introduced over two years in attempts to replace the Act of 1790 are reviewed in some detail. Certain earlier views concerning the dating of

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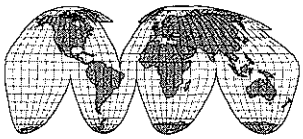

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(Continued on Page 211)

Patent Tax Payment Eased by Computers

By GEORGE F. W. TELFER
Journal of Commerce Staff

Using computers to compute and to find human errors, "not just as high-speed typewriters," a New York attorney saves multinational corporations millions of dollars a year by making prompt, accurate payments of patent taxes to governments around the world.

Payments are made through international banks following computation by Olcott International & Co. of Weehawken, N.J. Computations are based on a secret program designed by Bernard Olcott, who founded the company 15 years ago.

The system can prevent loss of valuable patent rights caused by late or inadequate tax payments. Olcott International's system not only reduce companies' in-house record-keeping and computer operations. It also eliminates the need for foreign patent attorneys "in the role of middle-men clerks — and I charge half what they would if I were not on the scene," Mr. Olcott said in an interview

NEVER LOST A PATENT

Emphasizing that errors do happen, he asserts that "We have never made an error we didn't correct" by using Trade Secret computer programs that detects both people errors and computer errors. As a result, Lloyd's of London issued a $1 Million errors and omissions liability insurance policy.

Every quarterly payment is computed and audited two to three weeks afterward, using two independent sets of programs and two different computers in two different locations. Mr. Olcott devised his special computer program based on his experience as a patent attorney and an electrical engineer. More than 10 years ago, after he proved the reliability of his computerized payment

(Continued from Page 17)

THE JOURNAL OF COMMERCE 17
Wednesday, April 5, 1978

Patent Tax Payment Eased by Computers

(Continued from Page 1)

system, E. I. du Pont de Nemours & Co. and Union Carbide Corp. took the risk of becoming his first clients. They skipped the usual trial and pilot runs.

Since then, he has built up a clientele of 48 major multinationals, including dozens of U.S. companies and the Office of Energy Research of the U.S. Department of Energy as well as British, German, Italian and Japanese companies.

Among the holdouts are Western Electric, "which steadfastly refuses" to employ outside services for its patent payments, and one large Germany company which is "talking with me again after spending $4 million trying to do the job itself," Mr. Olcott said.

Recently, he revealed, General Electric Co. inquired as to how much he would charge to train it to handle its own patent using its own computers "I never answered their letter."

Many companies utilizing computers for payment of patent taxes use them as high-speed typewriters and sorters, while Olcott International uses computers to compute, if only to find human errors, notes the company's founder.

"Information retrieval involves a lot of errors, and this work is too delicate to do without 100 percent reliability. More than half our clients have their own in-house computers. Many use computers even in their patent departments, but not for payments."

Country Comparisons

Mr. Olcott noted that the U.S. and Canada do not levy such taxes; so their patent offices run tremendous deficits.

Countries treat patent differently according to their own perceived needs." Many countries give you three years to develop your patent (manufacture the patented product), or they take it away. Interestingly, the East European countries allow a monopoly," Mr. Olcott said.

"In Canada, you used to be able to keep a monopoly if you produced enough to satisfy Canadian needs. Now you are subject to compulsory licensing on anything patented in Canada, in order to foster competition."

On the other hand, the United Kingdom and most of the other English-speaking countries will take the income. Japan wants the technology and therefore is strict on payment, while West Germany "gives you a break if you're late in paying."

When he started working on his system, Mr. Olcott recalled, "I expected all the attorneys to be against the idea. And I had feared that government patent offices would be too. But they welcomed prompt and accurate payments."

Opportunity Knocks

United Press International

FT. LEE, N.J. — Changes in Japan's patent law have opened a number of opportunities for American firms, according to a noted Japanese patent attorney.

In a report prepared for Technical Insights Inc., Akira Kukimoto said the new Japanese patent law, which has been two years in preparation and will go in effect in June, will allow composition of matter patents for the first time. This means drugs, plastics, food and chemical formulas not patentable in Japan now can get full protection.

American companies have been hesitant to market or license many such products in Japan because of the lack of patent protection.

Mr. Kukimoto said the new law also will reduce the cost of patent protection in Japan for foreign companies by allowing multiple claims under a single patent for the first time. The previous law allowed only one claim per patent.

The new law also will provide greater protection for foreign trademarks and Mr. Kukimoto said the final draft of the law may also make it possible to patent computer programs in Japan.

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