

# OREGON INTELLECTUAL PROPERTY NEWSLETTER



Oregon State Bar  
Intellectual Property Section

Intellectual Property Student Organization  
Northwestern School of Law of Lewis & Clark College



## Message from the Oregon State Bar, Intellectual Property Section Chair

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During the last few years the Oregon State Bar Intellectual Property Section has become one of the most active of the State Bar sections. We regularly organize and sponsor continuing legal education opportunities, we provide outreach in the form of essay contests and moot court sponsorships, and we proudly coproduce this newsletter biannually with the talented and enthusiastic law students of the Northwestern School of Law of Lewis & Clark College.

We are a diverse group. Some organizations cater to patent practitioners, corporate attorneys, litigators, or solo practitioners. Our members, on the other hand, include solo practitioners, corporate counsel, professors, and associates and partners of small, medium, and large firms. Although many of our members practice either patent prosecution or litigation, many focus on trademarks, trade secrets, copyright, licensing, unfair competition, or any combination of intellectual property pursuits. What binds us as an organization is a general interest in intellectual property.

It is our continuing goal to provide our diverse members with a range of activities and information. For example, Howard Skaist of Intel, reviewed answers to a patent quiz published in our Spring 2000 Newsletter. Another article in that issue was "Safe Harbors from the Stormy Seas of Copyright Infringement Litigation," by Professor Lydia Pallas Loren of Northwestern School of Law. At our annual meeting, Professor Lawrence Sung, of Northwestern School of Law, will speak on the topic "Going back in the dark: Does the patent prior user defense make trade secret protection more appealing?" This Fall 2000 newsletter includes "RIAA v.

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## Message from the IP Student Organization, Newsletter Executive Board

**Vikram Chaobal, Managing Editor**  
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The Newsletter Executive Board is proud to present the Oregon Intellectual Property Newsletter in conjunction with the Oregon State Bar's Intellectual Property Section. This newsletter, our second effort since we began our collaboration with the Section last Spring, represents our continuing effort to provide a forum for discussion of intellectual property matters by area practitioners and law students.

We view the scope of our newsletter broadly. This includes topics such as the patentability of human DNA, copyright law, the intersection of the Internet and the telecommunications or music industries, and trademark law. The scope of our newsletter is as broad as the advancing technology with which intellectual property lawyers are concerned.

We are proud to present an article from Seattle Perkins Coie LLP attorneys Yunan Ren and Brandon

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...OSB Chair Message continued from page one

MP3.com” by James Bradshaw of Willamette University College of Law. We are cosponsoring a Computer Law Association Round Table lunch at Miller Nash “Contributory and Vicarious Liability: Copyright Law After Napster” (to be held on November 13, 2000).

Our slate of officers for 2000-2001 reflects our goal of diversity. Our slate includes corporate counsel, professors, and associates and partners of small, medium, and large firms. The slate includes practitioners of every aspect of intellectual property law.

And this is your Section. If you have ideas on how we can improve, or if you would just like to participate, please contact me or any of the board members. If you have an article for the newsletter, please send it to me or one of the students.

Finally, we should all express our appreciation to the students at Northwestern School of Law of Lewis & Clark College for their praiseworthy effort in bringing this newsletter to you.

...IPSO Message continued from page one

Schmid. Their article, entitled “Federal Privacy Regulation of the Telecommunications and Cable Industries: A Working Basis for Federal Privacy Regulation of the Internet,” comes at an important time: many U.S. companies will adopt European Union Directive Internet privacy policies beginning November 1, 2000. Indeed, the discussion of privacy regulation on the Internet should be an informed one, and we hope to stimulate further conversation on this important issue.

Also in this issue, you will find the winning essay from the Section’s writing competition held last Spring, entitled “RIAA v. MP3.com” by James Bradshaw of Willamette University College of Law. We encourage students from throughout the region to submit an article or essay for this year’s competition. Information regarding this competition is included on page 15.

Our first newsletter was well received, and we look forward to receiving article submissions, letters to the editor, and announcements for our Spring 2001 issue.

Please contact our Submissions Editor, Elizabeth Kelly (ekelly@lclark.edu) should you wish to submit work for publication in the newsletter.

Thanks for reading, and feel free to contact us with any questions or comments regarding submissions, announcements, the newsletter, or intellectual property matters in general.

## OREGON INTELLECTUAL PROPERTY NEWSLETTER STAFF

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 Visit the OSB IP Section web site through:  
 <<http://www.osbar.org>>*

*E-mail the newsletter at:  
 ipso@lclark.edu*

## TOP HONORS IN WRITING COMPETITION

Jason Creasman and Jason Sheets took home top honors in the Nathan Burkan Memorial writing competition at Lewis & Clark Law School. This annual competition, sponsored by ASCAP, encourages interest in copyright law among all law students. Jason Creasman received first prize for his paper titled, "Digital Darwinism: The Evolution of an Open-Model of Software Development and Copyleft's Niche in the Legal Landscape." Jason Sheets' paper, "Copyright Misused: The Impact of the DMCA Anti-circumvention Measures on Fair & Innovative Markets," received second prize and will be published by Hastings Communications and Entertainment Law Journal (Comm/Ent).



## News and Events

### Highlights of the Oregon State Bar Intellectual Property Section Activities

#### EVENTS, ACTIVITIES, AND LEGAL COMMUNITY INVOLVEMENT

Howard Skaist, Senior Patent Attorney at Intel reviewed answers to the patent quiz published in the Spring 2000 Oregon Intellectual Property Newsletter. Stoel Rives sponsored this event in conjunction with the Intellectual Property Section.

The Intellectual Property Section sponsored an Intellectual Property Essay Contest with the goals of encouraging scholarship and generating content for the Oregon Intellectual Property newsletter and web site.

From the submissions received, a first prize of \$500 was awarded to James Bradshaw (of Willamette College of Law) for the essay entitled RIAA v. MP3.com, a second prize of \$300 was awarded to Patchen M. Haggerty (of Northwestern School of Law of Lewis & Clark College) for the essay entitled Music on the Web: The Copyright Conundrum, and a third prize of \$200 was awarded to Elaine B. Gin (of University of Washington School of Law) for the essay entitled Internet Business Method Patents – Drawing the Boundaries in the “.Com” World.

The Intellectual Property Section will be providing a \$1,000 sponsorship to the Northwestern School of Law of Lewis and Clark College Fourth Annual Conference on Intellectual Property in the Global Market Place on Friday, February 16, 2001.

The Intellectual Property Section sponsored the University of Oregon moot competition team in the Giles S. Rich Moot Court Competition. We also funded the team's expenses for the regional competition in San Francisco. The University of Oregon moot court team competed well, but lost to the eventual winner, Loyola University.

#### PUBLICATIONS

The Intellectual Property Student Organization of the Northwestern School of Law of Lewis and Clark College will jointly publish future newsletters with the OSB Intellectual Property Section.

The Spring 2000 Oregon Intellectual Property newsletter was prepared and distributed to section members. Articles were written by Stacy Slater (of Klarquist, Sparkman Campbell, Lerg & Whinston, LLP), Vikram N. Chaobal (of Northwestern School of Law), Professor Lydia Pallas Loren

(of Northwestern School of Law), Elizabeth Kelly and Stephanie Hines (of Northwestern School of Law), Professor Lawrence Sung (of Northwestern School of Law), and Howard Skaist (of Intel).

#### MISCELLANEOUS

Intellectual Property Section Chair Stacy Slater attended the 2000 Oregon State Bar Convention as a voting member of the House of Delegates in the ex-officio category, generally monitoring matters with a focus on the interests of intellectual property law practitioners.

#### UPCOMING ACTIVITIES

In February 2001, the OSB Intellectual Property Section expects to host a full day CLE with Judge Paul Michel of the Federal Circuit.

The Intellectual Property Section discussed improvements to the Section's page on the Oregon State Bar's Web site. The First, Second, and Third Place Essay Contest winners are published in their entirety.

Oregon Paralegal Association (“OPA”) 21st Annual Meeting and Seminars - October 26-27, 2000, The Resort at the Mountain, Welches, Oregon. Seminars include a panel discussion on the career path of a paralegal, legal research on the web, preparing clients/witnesses for the hearing, a mock arbitration hearing, and a keynote address by Phillip M. Margolin, attorney and best-selling author. For additional information please call Diane Thompson, CLA, RP, at (503) 294-2092.

OPA/IKON 6th Annual Blanket Drive - November 1, 2000 through January 12, 2001. We need new or used clean blankets and sleeping bags for the needy of our community. Please bring your blankets and sleeping bags to your office. Call IKON at (503) 225-9066 and they will pick up the donations within 24 hours. If you work out of the Portland area, please call Deanne Snedeker at (503) 222-9966 to arrange for pick-up. Distribution of the donations will be made by the Portland Sunshine Division. The Portland Sunshine Division also accepts clothing and food donations and we are happy to pick-up and add any clothing or food donations. For more information call Michelle Thomas at (503) 227-2486.

Computer Law Association Round Table - “Contributory and Vicarious Liability: Copyright Law After Naptster” - 12:00, November 13, 2000 at Miller Nash LLP 25th Floor, US Bancorp Tower.



## Case Summaries

Summary working materials provided by Klarquist Sparkman Campbell Leigh & Whinston LLP

### Heathmount A.E. Corp. v. Technodome.com<sup>1</sup>

Heathmount Corp. brought an in rem action against domain name technodome.com, alleging trademark infringement and cyberpiracy. Plaintiff, a Canadian corporation, claimed actual use of “Technodome” and “Destination: Technodome” since 1997. Ontario, Canada resident Elliott Salmons registered the domain name “technodome.com” in 1998. Plaintiff contended that the defendant was aware of plaintiff’s marks, and that registration of the domain name was a bad faith attempt to profit from the use of their marks.

The main issue before the court was whether plaintiffs could bring an in rem action against the defendant. The Anti-Cybersquatting Consumer Protection Act (ACPA) permits in an rem proceeding if a trademark owner is not able to obtain personal jurisdiction over a defendant, or if after due diligence, the trademark owner is not able to find a person who is a defendant to the suit. To determine the presence of personal jurisdiction, the court applied the Virginia long-arm statute, which allows personal jurisdiction to the fullest extent consistent with due process. Salmon’s only contact with Virginia was his registration over the Internet of technodome.com. In *America Online v. Huang*, the same court held that personal jurisdiction could not be based solely on the registration of a domain name.<sup>2</sup> Salmons did not consent to personal jurisdiction as part of his standard agreement with Network Solutions, Inc. (NSI) – one of the main companies that register domain names — and he may have been unaware that NSI is located in Virginia. These activities were found to be insufficient to establish minimum contacts with the state, and personal jurisdiction was therefore lacking. The court noted that Congress intended the in rem provision to be applied when domain name registration is a defendant’s only contact with a jurisdiction.

The in rem action was therefore allowed, and plaintiff’s motion to order the defendant to appear or plead within 20 days of service, or be held in default per FRCP 54(b) was granted. Plaintiff’s request to order NSI to deposit the defendant’s domain name in the registry of the court was also granted pursuant to ACPA.

<sup>1</sup> Heathmount A.E. Corp. v. Technodome.com, 106 F. Supp.2d 860 (E.D.Va. July 24, 2000).

<sup>2</sup> America Online v. Huang, 106 F. Supp.2d 848 (E.D.Va. July 13, 2000).

written by Anne Koch, Student, J.D. 2001,  
Northwestern School of Law of Lewis & Clark College

### PerSeptive Biosystems, Inc. v. Pharmacia Biotech, Inc.<sup>1</sup>

PerSeptive Biosystems brought an action against Pharmacia Biotech alleging infringement of three patents concerning high-speed chromatography, or separation of biological materials. Pharmacia raised defenses that the patents were invalid for failure to name the correct inventors and were unenforceable due to inequitable conduct practiced by the named inventors during prosecution of the patents.

It was shown at trial that, in their patent application to the PTO, plaintiffs misrepresented the involvement of other inventors and also mischaracterized their relationship with Polymer Labs, a British company who made the particles on which PerSeptive based its inventions. It was also shown that some of the inventors intentionally failed to disclose collaboration with Polymer Labs altogether.

The District Court found that PerSeptive’s misrepresentations concerning the inventorship of the patents were material and that the patents were unenforceable due to the named inventors’ inequitable conduct. The court also denied plaintiff’s motion to correct inventorship because of their culpable conduct.

On appeal to the Federal Circuit, PerSeptive argued that inventorship changed during prosecution of the patents. The court, however, stated that the issue was not inventorship per se, but plaintiff’s misrepresentations about inventorship. The court then affirmed, finding that plaintiffs intended to deceive the PTO during the prosecution of the patents and that this intent was material in holding the patents to be unenforceable. The dissenting judge felt that inventorship in the patents was correct because collaboration does not mean co-inventorship.

<sup>1</sup> PerSeptive Biosystems, Inc. v. Pharmacia Biotech, Inc., 2000 WL 1221897 (Fed. Cir. Aug. 29, 2000).

written by Anne Koch, Student, J.D. 2001,  
Northwestern School of Law of Lewis & Clark College

### UMG Recordings, Inc. v. MP3.com, Inc.

MP3, Inc. developed new services called “Beam-It” and “Instant Listening”, which would allow individuals to store their music collection on the web and then be able to access the collection at any time. To provide this service, MP3 made digital copies of thousands of



recorded, copyrighted CD's. They then planned to allow individuals access to these copies after the individual demonstrated that they already owned the CD. This was accomplished by placing the CD into the individual's computer CD-ROM drive to determine if the CD was a true copy. In other words, if a person owned a lawful copy of a CD, MP3 would provide them with an unlawful digital copy.

After ten major record labels brought suit against MP3 for infringing thousands of copyrights, MP3 claimed that their copying constituted fair use and therefore not infringement. MP3 argued that the "Beam-It" and "Instant Listening" services were simply facilitating an individual's digital storage of his or her own CDs. In its May, 2000 ruling, the Court did not accept MP3's fair use defense, holding that the digital copies were unlawful and that MP3's purported defense was "little more than a sham."<sup>1</sup> The court further noted that copyright "is not designed to afford consumer . . . convenience."<sup>2</sup> The court later held that MP3's unlawful copying constituted willful infringement, subjecting MP3 to enhanced statutory damages. The court set damages at \$25,000 per CD; MP3 claims to have copied 4,700 CDs.

<sup>1</sup> UMG Recordings, Inc. v. MP3.com, Inc., 2000 WL 1262568 (S.D.N.Y. Sept. 6, 2000).

<sup>2</sup> UMG Recordings, Inc. v. MP3.com, Inc., 92 F. Supp.2d 349 (S.D.N.Y. May 4, 2000).

written by Anne Koch, Student, J.D. 2001,  
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## Universal City Studios v. Reimerdes

In *Universal City Studios v. Reimerdes*,<sup>1</sup> eight major United States motion pictures studios sued to prevent the Internet posting of a program called DeCSS. DeCSS circumvents the encryption system, content scramble system (CSS), employed by the studios on digital versatile disks (DVDs). In order to play DVDs encrypted with CSS, a DVD player must include the decryption algorithm which can be obtained through a license from the Copy Control Association (CCA). That license requires the manufacturer of the DVD player to assure that the equipment will not supply digital output that could be used in copying protected DVDs. Using DeCSS allows playback of DVDs. Because the DeCSS was made freely available on the Internet, DeCSS enabled DVD playbacks on computers absent license from the CCA and thus under no licensing obligation to prevent the copying of decrypted files to computer hard drives.

DeCSS was reverse engineered by a 15 year-old Norwegian in September 1999 and was promptly posted on the Internet. The defendants in the case began posting the DeCSS on their website in November 1999. The Court determined that posting the DeCSS code on the Internet and directly linking to other websites that posted the code violated section 1201. Specifically, the posting of this code constituted offering to the public a technological means of circumventing a technological access control measure and the technology was designed primarily to circumvent this measure. The court rejected as irrelevant the defender's argument that DeCSS was designed primarily to further the development of a DVD player for the Linux operating system. The statutory requirements for liability had been met.

The court rejected defendants' fair use and First Amendment defenses. In an analysis similar to that in *Realnetworks v. Streambox*,<sup>2</sup> the court held that fair use is not a defense to a violation of section 1201. "If Congress had meant the fair use defense to apply to such actions, it would have said so."<sup>3</sup> The court held that the DMCA overruled *Sony Corp. of America v. Universal City Studios, Inc.*,<sup>4</sup> "to the extent of any inconsistency between Sony and the new statute."<sup>5</sup> The court also rejected defendants' First Amendment arguments, finding that while computer code is a form of speech, this particular regulation of such speech was content neutral. As a content neutral statute, it is subject to intermediate scrutiny, requiring only that the regulation further an important or substantial government interest and that the restriction on alleged First Amendment freedoms be no greater than is essential to the furtherance of that interest. The court held that the prohibition against trafficking in technology that circumvents a technological protection appropriately furthers the important governmental interest of protecting "copyrighted works stored in digital media from the vastly expanded risk of piracy in the electronic age"<sup>6</sup> with minimal restrictions on First Amendment freedoms.

<sup>1</sup>Universal City Studios v. Reimerdes, 2000 WL 1160678 (S.D.N.Y. Aug. 17, 2000).

<sup>2</sup>Realnetworks v. Streambox, 2000 WL 127311 (W.D. Wash. Jan. 18, 2000).

<sup>3</sup>Reimerdes at \*17.

<sup>4</sup>Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984).

<sup>5</sup>Reimerdes at \*18.

<sup>6</sup>Reimerdes at \*24. The court also rejected defendants' argument of vagueness and overbreadth.

written by Lydia Loren, Professor,  
Northwestern School of Law of Lewis & Clark College



# Federal Privacy Regulation of the Telecommunications and Cable Industries: A Working Basis for Federal Privacy Regulation of the Internet

by Yunan Ren & Brandon S. Schmid  
*Perkins Coie LLP*

Described as the final frontier of business, the Internet is famed for being subject to minimal government regulation. To most Internet business types, government regulation is synonymous with bureaucracy, red tape and unnecessary restrictions that threaten to interfere with the use of the Internet as a business tool. Consider the current debate regarding consumer privacy and the collection of personal information on the Internet, which has trained the spotlight on this anti-regulatory attitude. This debate has made clear that certain free-Internet advocates oppose any legislation that would impose even minimal standards for protection of consumer personal information on the Internet, preferring instead the promise of industry self-regulation.

Curiously, the collection of consumer personal information –and government regulation of such collection – is not a novel occurrence in the context of the U.S. business environment. Indeed, a vast array of current legislation, regulatory schemes and interpretive case law governs the collection of personal consumer data in many other industries, such as telecommunications and cable.<sup>1</sup> Federal law and regulations governing the collection, use and disclosure of consumer personal information has been in place in those industries for several decades. As with telecommunications and cable, the Internet – which accomplishes information transfer on an infinitely faster and broader scale – presents similar, but amplified consumer protection issues.

In light of this background and the speed and scale of the Internet, a consistent regulatory system is essential to level the playing field between the players while maintaining certain privacy rights consumers have come to demand and expect. Recently, the Federal Trade Commission (FTC) issued a report to Congress recommending a proposed framework for regulating the collection of consumer personal information over the Internet.<sup>2</sup> After reviewing the proposed legislation, the remainder of the report briefly describes the federal privacy laws and regulations governing the telecommunications and cable industries to illustrate how the proposed legislation is both grounded in accepted privacy

principles and supported by existing regulatory frameworks.

## **FTC REPORT TO CONGRESS ON ONLINE PRIVACY**

In May of this year, the FTC issued a report to Congress entitled *Privacy Online: Fair Information Practices in the Electronic Marketplace*.<sup>3</sup> The FTC Online Privacy Report discusses the growth of Internet commerce and the corresponding rise in concern among consumers about the collection, use and dissemination of their personal information. While prior to the report the FTC had taken some limited actions with respect to private consumer information on the Internet,<sup>4</sup> the FTC's approach was generally hands off and mainly promoted industry self-regulation and principles of fair information practices. The report, departing from the FTC's prior practice, emphasizes the continued lack of an industry-wide Internet standard for the protection of consumers' privacy interests. The report also stresses the failure of the vast array of vague, unclear or contradictory Web site privacy policies to provide consumers with satisfactory minimum legal notices and protections.

To address these issues, the FTC recommended enactment of legislation governing the gathering of personal consumer information through the Internet by adopting four key principles of consumer privacy: notice, choice, access, and security. Briefly, these principles would require consumer-oriented commercial Web sites to: i) provide consumers with clear and conspicuous notice of their information collection, use and disclosure practices; ii) offer consumers choices as to how their personal information may be used beyond the primary purpose for which the information is collected (i.e. to consummate a transaction); iii) offer consumers reasonable access to their personal information maintained by the site; and iv) take reasonable steps to protect the security of consumers' personal information. According to the FTC, these four main principles have been widely accepted for nearly thirty years as neces-



sary to assure that information practices are fair and provide adequate privacy protections for consumers.<sup>5</sup> The FTC also lists enforcement as a vital part of privacy regulation scheme and a necessary fifth element.

Many people- including two of the five FTC Commissioners, one who dissented and one who concurred only in part – believed the FTC’s recommendation for Congressional legislation was anathema and without historical precedent. Close examination of the spectrum of laws regulating protection of consumer information reveals that the FTC recommendations actually rest on a solid foundation of past federal legislation and regulation.

## FEDERAL PRIVACY REGULATION OF THE CABLE INDUSTRY

While the cable industry was developed and was introduced into the marketplace in the 1940’s, federal regulation of did not occur until 1965 when the Federal Communications Commission (FCC) first adopted some rules for cable systems. In fact, up until Congress adopted the Cable Communications Policy Act of 1984, amending the Communications Act of 1934, there were no federal regulations regarding the privacy of consumer information collected by cable operators. The privacy regulations governing cable operators’ rights and abilities to collect, use and disclose personal information about subscribers were subsequently amended by Congress in the Cable Television Consumer Protection and Competition Act of 1992, and again in the Telecommunications Act of 1996. While increasing the protections restricting the collection, use and disclosure of consumer’s personal information by cable operators, the Telecommunications Act of 1996 and corresponding FCC regulations also removed many regulations inhibiting cable companies from competing in the deployment of advanced telecommunication and information technologies and services, such as the Internet.

The current federal law and FCC consumer privacy regulations governing the cable industry bear a close resemblance to the FTC’s recently proposed Internet privacy regulations. In particular, the law requires cable operators, at the time they enter into an agreement for services with a subscriber and once a year thereafter, to provide the subscriber with a separate written statement informing the subscriber of: i) the nature of the personally identifiable information collected and the nature of the operator’s use of such information; ii) the nature, frequency and purpose of any disclosure to third parties of such information; iii) the period during which such information will be maintained by the operator; iv) the times and places the subscriber may have access to such information; and v) notice of the limita-

tions imposed by the regulations on the operator’s right to collect and use the subscriber’s information and the subscriber’s right to enforce such limitations.<sup>6</sup> Further, cable operators are prohibited under the law from collecting or disclosing to third parties personally identifiable information using the cable system without the prior written or electronic consent of the subscriber, except as necessary to provide service, to detect unauthorized reception of cable communications or to comply with a court order after subscriber notification.<sup>7</sup>

Federal law and FCC cable regulations grant subscribers the right to access and correct all personally identifiable information collected and maintained by cable operators at reasonable times and convenient places designated by the operators. If the information is no longer necessary for the purpose for which it was collected and there is no request or court order to access the information, the cable operator is required to destroy such information.<sup>8</sup> Finally, with respect to enforcement, any person aggrieved by any act of a cable operator in violation of the privacy regulations may bring a civil action in a U.S. district court, and the court may award the aggrieved actual damages, punitive damages and reasonable attorneys’ fees and litigation costs.<sup>9</sup>

Based on the above, the federal law and FCC consumer privacy regulations governing the cable industry are consistent with all of the FTC’s recommendations to Congress for the Internet. As in the Internet context, cable companies are required to give their subscribers notice of their collection, use and disclosure practices; the choice of whether to permit such collection and disclosure of their personal information; access to such information; and adequate security measures regarding the maintenance and destruction of such information. Further, individual subscribers are given the right to a civil action against a cable operator for a violation of the law to ensure adequate enforcement.

## FEDERAL PRIVACY REGULATION OF THE TELECOMMUNICATIONS INDUSTRY

While not as comprehensive or detailed as the laws governing the cable industry, federal privacy laws and FCC regulations governing the telecommunications industry also provide consumers with standard protections of notice, choice and access.<sup>10</sup> In particular, the law provides that: i) except as required by law or with the approval of the customer, a telecommunications company (telco) may only use, disclose, or permit access to personally identifiable customer proprietary network information (CPNI)<sup>11</sup> received as part of its provision of telecommunications service in its provision of such service from which the information was derived, or in the provision of services necessary to, or



used in, the provision of such telecommunications service, and ii) a Telco must disclose CPNI upon written request to a customer.<sup>12</sup>

The law and regulations generally allow a Telco to use, disclose, or permit access to aggregate customer information without limitation (as opposed to CPNI) provided that if local exchange carriers do so they must provide such aggregate information to other carriers or persons on reasonable and nondiscriminatory terms and conditions upon reasonable request.<sup>13</sup> Finally, unlike CPNI and aggregate customer information, subscriber list information such as the subscriber's name, address and telephone number that is published by the Telco must be provided on a non-discriminatory basis to other persons for the purpose of publishing directories in any format.<sup>14</sup>

Interestingly, the FCC recently attempted to implement regulations under the above U.S.C. provisions to further clarify the rights and duties of the Telcos regarding their collection, use and disclosure of personal consumer information. The regulations more closely resembled the law governing the cable industry and required the Telcos to obtain an opt-in from the consumer prior to being able to collect, use and disclose the consumer's personal information for business purposes other than the provision of telecommunications service. These new regulations were successfully challenged, however, by US West and other Telcos and overruled by the Court of Appeals for the Tenth Circuit on the grounds that they were overbroad and infringed upon the Telcos' Constitutional rights of free speech.<sup>15</sup>

### CONCLUSION

Proposed regulation for the Internet regarding the collection, use and disclosure of consumer personal information is based on established principles and past practices of federal agencies responsible for oversight of the Internet and the protection of consumer interests. The same rationale behind the privacy regulations governing the telecommunications and cable industries applies doubly to the advanced technology presented by the Internet. These established policies, as they have evolved over the years to present us four fundamental principles relating to the protection of consumer privacy – notice, choice, access and security – should be considered by Congress as minimum standards on the Internet to protect consumers from the unwarranted collection, use and disclosure of their personal information.

<sup>1</sup> While these particular regulatory schemes involve traditionally regulated industries, let us not forget that the creation of the Internet itself was in part under the auspices of the federal government and subject to government regulations, albeit regulations that generally guaranteed the freedom of information transfer and

prohibition of individual state regulation.

<sup>2</sup> FTC, PRIVACY ONLINE: FAIR INFORMATION PRACTICES IN THE ELECTRONIC MARKETPLACE (2000), at, <http://www.ftc.gov/reports/privacy2000/privacy2000text.pdf>, (hereinafter the "FTC Online Privacy Report").

<sup>3</sup> *Id.*

<sup>4</sup> See, e.g. GeoCities, File No. 9823015 (FTC), available at <<http://www.ftc.gov/os/1998/9808/geo-ord.htm>> (unsigned, undated document). The FTC entered into this consent decree with GeoCities for the provision of notice to consumers of the Web site's information collection practices. The FTC consent order with GeoCities states, in part, that GeoCities is required to provide consumers notice of its collection, use and disclosure practices with respect to consumer personal identifying information, and continues:  
Such notice shall include, but is not limited to, disclosure of:  
A. what information is being collected (e.g., "name," "home address," "e-mail address," "age," "interests");  
B. its intended use(s);  
C. the third parties to whom it will be disclosed (e.g., "advertisers of consumer products," "mailing list companies," "the general public");  
D. the consumer's ability to obtain access to or directly access such information and the means by which (s)he may do so;  
E. the consumer's ability to remove directly or have the information removed from respondent's databases and the means by which (s)he may do so; and  
F. the procedures to delete personal identifying information from respondent's databases and any limitations related to such deletion.

Such notice shall appear on the home page of respondent's Web site(s) and at each location on the site(s) at which such information is collected

*Id.*

<sup>5</sup> *Supra* note 2, at 12.

<sup>6</sup> 47 U.S.C. § 551 (1994).

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup>The laws governing telecommunications service providers' ("Telcos") collection, use and disclosure of consumer personal information can be found in 47 U.S.C. Chapter 5, Subchapter II, Part 1 at § 222.

<sup>11</sup>CPNI is defined as "information that relates to the quantity, technical configuration, type, destination, and amount of use of a telecommunications service . . .; and (B) information contained in the bills pertaining to telephone exchange service or telephone toll service . . ." 47 U.S.C. § 222(f).

<sup>12</sup> 47 U.S.C. § 222.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> U.S. West, Inc. et al v. FCC, 182 F.3d 1224 (10th Cir. 1999).

*Mr. Ren is an associate with Perkins Coie LLP in the Hong Kong and Seattle offices. His practice emphasizes international business transactions. He is a Harvard Law School graduate.*

*Mr. Schmid is an associate with Perkins Coie LLP in the Seattle office. His practice emphasizes e-commerce and internet law transactions as well as general corporate and business law matters. He is a graduate of the University of Michigan.*



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## Intellectual Property Piracy Symposium

by Elizabeth Kelly, J.D. 2002, Northwestern  
School of Law of Lewis & Clark College

In this day and age we are immersed in a realm in which intellectual property is continually affecting our lives. We experience the effects in every song we hear, computer we use and product we buy. With such a vast breadth of the field there are always those who find ways acquire this property by inappropriate means.

The Law & Entrepreneurship Center at the University of Oregon School of Law, together with Stoel Rives, LLP and Klarquist Sparkman Campbell Leigh & Winston presented the "Intellectual Property Piracy Symposium" on October 13, 2000 in downtown Portland. The symposium targeted Intellectual Property issues of Copyright and Trademark in the areas of music, software, visual media and in the international arena.

The symposium keynote speaker was Sean Hoar, Assistant U.S. Attorney in Eugene who handled the prosecution for the nation's first Internet Piracy conviction under the No Electronic Theft Act. The law was signed by President Clinton in 1997 and makes it illegal to reproduce or distribute copyrighted works, such as software and digital recordings. He spoke on prosecution guidelines on criminal copyright infringement cases, fair use proposals and industry issues.

The symposium included many powerful speakers from Dreamworks, SKG, Microsoft, Adidas, Supertracks and Digimarc. The speakers gave many ideas and strategies on how attorneys and businesses might better address piracy issues in the digital age.

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*Lewis & Clark's Northwestern School of Law  
is pleased to announce the 2001 Intellectual  
Property Distinguished Visitor:*

**The Honorable  
Paul R. Michel**

**Circuit Judge U.S. Court of Appeals  
for the Federal Circuit**

**February 12-16, 2001**

Northwestern School of Law of Lewis and Clark will host the Honorable Paul R. Michel as its second annual Distinguished Intellectual Property Visitor. Judge Michel will be on campus for the week of February 12 -16, 2001, interacting with students, faculty, and members of the bar in a variety of settings. On Tuesday, February 13 Judge Michel will deliver a public lecture at 7:30 p.m. at the law school and on Friday, February 16 he will deliver the keynote address at the law school's fourth annual intellectual property conference.

On the U.S. Court of Appeals for the Federal Circuit since 1988, Circuit Judge Paul R. Michel has distinguished himself both in matters before the court and in his prolific involvement with the legal academy and practicing bar. He is a graduate of Williams College and the University of Virginia Law School. He has been a dedicated member of government service throughout his professional career. His credits include his respective appointments as an Assistant Special Watergate Prosecutor, assistant counsel to the Senate Intelligence Committee, Associate and Acting Deputy Attorney General in the U.S. Department of Justice, and counsel and administrative assistant to U.S. Senator Arlen Specter. In his tenure with the Federal Circuit, Judge Michel has authored several highly influential patent opinions, including *Vitronics Corp. v. Conceptronic, Inc.*, which set forth cogent guidelines on proper claim interpretation.

The law school's distinguished intellectual property visitor series is made possible by a generous grant by the Mentor Graphics Foundation.



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**INTELLECTUAL PROPERTY SECTION**

**INTELLECTUAL PROPERTY  
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Full text of the second and third place articles can be found on the newsletter's web site: <<http://www.lclark.edu/~ipso/OIPN>>



**Music on the Web, the  
Copyright Conundrum**

By: Patchen M. Haggerty, J.D.

*Patchen Haggerty spent her third year of law school as a visiting student at the Northwestern School of Law of Lewis & Clark College and is a graduate of the Indiana University School of Law.*

**Abstract**

Sound recordings have always been a thorn in the side of traditional copyright law. With the many layers of copyright protection required to protect the rights of every person involved in the making of a sound recording,<sup>1</sup> it is often difficult for individual copyright owners to police infringement of their sound recordings. As a result, several performance-rights societies emerged to aid copyright owners in protecting their works from infringement.

However, in today's digital society, the line between copyright infringement and fair use is often blurred. As new technologies capable of disseminating music in digital format without actually making a copy emerge, those involved in the legal community struggle to try to apply existing copyright laws to ever-changing technologies. While the performance rights societies would like a strict and narrow definition of copyright law to be applied to emerging digital technologies, developers of these emerging technologies would like existing copyright laws to be flexible and elastic to allow the free dissemination of music on-line.

In an effort to validate this narrow construction of copyright law, the Recording Industry of America (hereinafter the "RIAA") has sued Napster, Inc., the provider of a new software system that has revolutionized the way listeners access and obtain music. This essay will comment on the recent denial of Napster, Inc.'s motion for partial summary judgment in *RIAA v. Napster, Inc.*<sup>2</sup>, theorize on the ultimate outcome of the RIAA's claims of vicarious and contributory liability

for copyright infringement against Napster and theorize as to the future of music on the Internet through an analysis of the Secure Digital Music Initiative, a project spearheaded by the RIAA.

<sup>1</sup> 17 U.S.C. § 106 (1994).

<sup>2</sup> 2000 WL 573136 (N.D. Cal 2000).

**Internet Business Method  
Patents -**

**Drawing the Boundaries in  
the ".com" World**

by Elaine B. Gin

*University of Washington School of Law*



**Abstract**

The patenting of Internet business methods is currently the hottest trend among the patent bar and e-commerce firms -- but it is also controversial and contentious. Because patents are a monopoly, many argue that patenting e-business method, which are often broad and simple, would impede innovation on the Internet. There has been much condemnation in the media against patenting such Internet business methods. For instance, the New York Times headlines an article, "As Patents Multiply, Web Sites Find Lawsuits Are A Click Away."<sup>1</sup> A Wall Street Journal article claims that "Battles Over Patents Threaten to Damp Web's Innovative Spirit."<sup>2</sup> Intellectual property rights are the currency of the New Economy. And because of the increasing importance of patents, the patenting of Internet business methods will have a profound effect on the future of e-commerce and the growth and usage of the Internet.

<sup>1</sup> Saul Hansell, *As Patents Multiply, Web Sites Find Lawsuits Are a Click Away*, N.Y. TIMES, Dec. 11, 1999.

<sup>2</sup> Thomas E. Weber, *Battles Over Patents Threaten to Damp Web's Innovative Spirit*, WALL ST.J., Nov. 8, 1999.



# RAII v. MP3.COM

by James Bradshaw

*Willamette University College of Law*



## INTRODUCTION

This article explores the recent controversy between the music industry giant, Recording Industry Association of America (RIAA), and the online newcomer MP3.com. The controversy revolves around the online distribution of digital music in the MP3 format. The two companies' recent legal skirmish is significant because it serves as a prelude to the broader conflict between traditional and digital means of media distribution. It is expected that traditional models of distribution will be supplanted as the public turns to the Internet as their primary media provider. Established entities, such as the RIAA, were slow to realize this and have recently found themselves usurped by Internet start-ups. In an effort to maintain their dominance, the traditional media have turned to the traditional rules of intellectual property protection. In doing so, both sides have found the old intellectual property regimes ill suited to an online world where innovation outpaces attempts at classification. This article will relate the experience of two companies in their attempt to reconcile the laws of the twentieth century with the technology of the twenty-first.

## THE MP3 FORMAT

MP3 is an audio compression file format which shrinks music files to a fraction of their original size while maintaining "near" CD-quality sound. The result for Internet users is a significant reduction in the amount of time that it takes to download a song. A 56K modem can download a song from the Internet in a few minutes, and a T-1 connection can download an entire CD's worth of MP3 files in just over ten minutes.<sup>1</sup>

The MP3 format is the most widely used format for the digital distribution of music over the internet.<sup>2</sup> It is estimated that there are over five million MP3 users downloading over three million songs daily from over 30,000 music websites.<sup>3</sup> Of this \$7.8 billion, it is estimated that somewhere from \$1.1 billion to \$1.6 billion will represent sales of downloadable music in 2002.<sup>4</sup>

One factor driving MP3's popularity is the recent introduction of portable MP3 players. These devices

free consumers from having to listen to MP3 files on their computer terminal. At least a half dozen manufacturers now offer the product, which is smaller, lighter, and less likely to skip than the standard portable CD player. A study by Forrester Research predicts that the market for these players will explode early in 2001, when it is expected that the price will drop below one hundred dollars per player.<sup>5</sup>

A proposed alternative to the MP3 format is the Secure Digital Music Initiative (SDMI) format. The aim of SDMI is to protect digital music so that it cannot be distributed without the copyright holder's permission.<sup>6</sup> Spearheaded by the Recording Industry Association of America (RIAA), more than one hundred companies are participating in development of the SDMI format.<sup>7</sup> However, since its inception, the project has been plagued with delays and outside criticism. Recently the executive director of the project chided SDMI members for failing to create an aggressive work plan or even to pursue the project's goal in a professional manner.<sup>8</sup>

## U.S. COPYRIGHT LAW

The United States Constitution authorizes Congress to enact copyright laws to secure rights for "Authors" in their works for limited periods of time for the purpose of advancing the "Progress of Science."<sup>9</sup> Pursuant to this purpose, Congress enacted the Copyright Act which protects original works of authorship that are fixed in a tangible medium of expression.<sup>10</sup>

The MP3 controversy revolves around the copyright in "phonorecords." Phonorecords are "material objects in which sounds . . . are fixed, by any method known or later developed, from which the sound may be perceived."<sup>11</sup> Phonorecords, therefore, are items such as tapes, CDs, and albums.<sup>12</sup> The law interprets phonorecords also to include digital manifestations of music such as a CD compressed into MP3 format and distributed on the World Wide Web.<sup>13</sup>

Within a particular phonorecord, there may be found two separate copyrights: one in a "musical composition" and one in a "sound recording."<sup>14</sup> A musical com-



position encompasses both the words of a song and its instrumental component. The owner of the copyright in a musical composition is generally the composer or lyricist who wrote the song.

A “sound recording” is different from a musical composition. Sound recordings are “works that result from the fixation of a series of musical, spoken, or other sounds . . . regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied.”<sup>15</sup> Thus, a sound recording is essentially a captured performance which a listener may hear. The sound recording copyright holder is the performer or the performer’s record company.

The Copyright Act grants copyright owners several exclusive rights with regard to their works of authorship. Among them are the right “to reproduce the copyrighted work in copies or phonorecords,” the right “to distribute copies or phonorecords of the copyrighted work,” and the right “to perform the copyrighted work publicly.”<sup>16</sup>

The exclusive right to reproduction permits the copyright owner to make copies of a phonorecord and to prevent others from doing so without permission.<sup>17</sup> Unauthorized copying of a phonorecord, for example a CD, violates both the reproduction rights of the musical recording and of the sound recording. The reproduction right is limited by the fair use doctrine and the compulsory licensing provision of § 115 which requires that musical composition copyright holders grant a license to anyone wishing to use the musical composition at a fee that is established by law.<sup>18</sup>

The rights of distribution are distinct from the right of reproduction. A person violates the exclusive right of distribution by selling a work without authority. It does not matter whether the infringer made the copy, knew that it was made without authority, or even actively disseminated the protected work.<sup>19</sup> The unauthorized sale of a phonorecord violates the distribution right of the musical composition copyright holder and the distribution right of the sound recording copyright holder.

Generally, the exclusive right of public performance is reserved only for the musical composition copyright holder. To perform a work publicly means to transmit the work at a place open to the public or where a substantial number of people are gathered; gatherings of family members and social acquaintances are not considered public.<sup>20</sup>

The right of public performance has traditionally not been extended to sound recordings. Congress recently gave sound recording copyright owners a limited public performance right for broadcasts made “by means of a digital audio transmission.”<sup>21</sup> Broadcasters of “digital phonorecord deliveries” must now pay sound recording copyright owners a statutorily prescribed rate for public

performance.<sup>22</sup>

A significant exception to a copyright owner’s exclusive rights is the fair use doctrine. The fair use doctrine is a defense which excuses copyright infringement in certain limited circumstances. The purpose of this exception is to avoid stifling creativity or the dissemination of useful works to the public.<sup>23</sup>

Section 107 of the Copyright Act outlines a four-factor balancing test to use in determining what constitutes fair use: (1) the purpose and character of the use; (2) the nature of the copyrighted work; (3) the amount and substantiality of copying; and (4) the effect of the use on the potential market for the copyrighted work. Also, other relevant factors may be considered as necessary. Fair use is an “equitable rule of reason” to be applied in light of the overall purposes of the Copyright Act.<sup>24</sup>

The “purpose and character of use” requires consideration of whether the defendant’s use was for commercial or noncommercial purposes, whether the defendant’s conduct was ethical, and whether the defendant’s use was “transformative.”<sup>25</sup> Use for a commercial purpose is less likely to be deemed fair than for a noncommercial use.<sup>26</sup> Transformative use questions whether the defendant added his own creativity to the material that he took from the plaintiff. If the defendant’s use was transformative, and thereby added to the overall stock of useful works benefiting the public, it is more likely to be found fair.<sup>27</sup>

To analyze the second factor, the nature of the copyrighted work, is to classify a work as either “informational” or “entertainment.”<sup>28</sup> Applying this approach, a court generally finds in the defendant’s favor when the work is informational, and in the copyright owner’s favor when the work is entertainment.<sup>29</sup>

The third factor, the amount and substantiality of the portion used in relation to the copyrighted work as a whole, calls into question whether the infringing defendant improperly used a substantively important expression that constitutes the heart of the copyrighted work.<sup>30</sup> An important consideration is whether the defendant took more than the minimum amount necessary to accomplish his purpose. To do so works against a finding of fair use.<sup>31</sup>

The fourth factor, the effect of the use upon the potential market for the copyrighted work, may be the most important factor, as indicated by the court in *Harper & Row, Publishers, Inc. v. Nation Enterprises*.<sup>32</sup> If so, copying which does not intrude upon either the existing market for a copyrighted work, or the market for derivative works based on it, can be considered a fair use. To make this determination, courts consider whether the defendant’s work performs a different function than the plaintiff’s copyrighted work.<sup>33</sup>

The landmark case, *Sony Corporation of America v.*



*Universal City Studios, Inc.*, illustrated the application of these four factors.<sup>34</sup> In *Sony*, the actions of private individuals in videotaping free broadcast programming in their homes for the purpose of “time-shifting” were found to be fair use. The Court defined time-shifting as “the practice of recording a program to view it once at a later time, and thereafter erasing it.” The Court held that time-shifting was permissible because it was presumed not to “cause any likelihood of nonminimal harm to the potential market for, or the value of, [the plaintiff’s] copyrighted works.”<sup>35</sup>

Another exception to a copyright owner’s exclusive rights is the first-sale doctrine. This doctrine allows the owner of a copy of a phonorecord to sell or dispose of it without authorization from the copyright holder.<sup>36</sup> The rationale behind the doctrine of first sale is that once the copyright owner has had the opportunity to profit from the initial sale of the copy, he no longer may control its destiny. The policy goal of protecting the copyright owner gives way to the policies disfavoring limitations on the alienation of property.<sup>37</sup>

### THE MUSIC INDUSTRY

The RIAA is a trade association which represents more than five hundred record companies. The RIAA’s members “create, manufacture and/or distribute approximately 90% of all legitimate sound recordings produced and sold in the United States.”<sup>38</sup> The association performs anti-piracy work on behalf of its members.<sup>39</sup>

Through their individual record companies, the RIAA represents performers regarding their copyrights in sound recordings in phonorecords. An online company may lawfully publicly perform a sound recording or reproduce and distribute a phonorecord over the Internet, if it obtains a license from the copyright holder.<sup>40</sup> These rights are subject to limited compulsory statutory licensing schemes.<sup>41</sup> If a company is not within the statutory licensing scheme, then a direct license from the copyright owner is required.<sup>42</sup>

A webcaster who wishes to provide users with MP3 files, either by streaming or downloading, may potentially incur multiple tiers of liability by offering this service.<sup>43</sup> At each tier a webcaster must obtain a license by paying a fee. A webcaster would potentially be required to pay for a license for performing the musical composition, a license for the digital performance of the sound recording (handled by RIAA), and a license for the distribution right for the musical composition and the sound recording in the phonorecord.<sup>44</sup>

### THE MY.MP3.COM CONTROVERSY

My.MP3.com was launched in January 2000 as “an innovative new service that lets you instantly add, organize and listen to your music collection online.”<sup>45</sup>

To make this service possible, My.MP3.com purchased tens of thousands of CDs and copied them onto its server, thus enabling users to replay the recordings for their personal use.<sup>46</sup> Users flocked to the new service: more than 10,000 individuals visited the site in the first 36 hours and accessed more than 4.4 million tracks.<sup>47</sup>

In order to access a recording, a My.MP3.com user first had to “prove” possession of the CD.<sup>48</sup> This could be accomplished in either of two ways. One method required the user to insert his own copy of the CD into his computer’s CD-ROM drive and “beam” proof of possession to My.MP3.com. The other method was to purchase a copy of the CD from a participating online retailer, and, thereby, send proof of purchase to My.MP3.com. The My.MP3.com service thus sought to be the “functional equivalent” of a user storing his own CDs on My.MP3.com’s server. Ultimately, however, when a user accessed the sound recordings contained on My.MP3.com’s database, the user accessed My.MP3.com’s unauthorized recordings and not, as My.MP3.com had represented to consumers, the user’s own CDs.<sup>49</sup> Thus, a user must have had physical possession of the CD in order to listen to it using My.MP3.com. However, nothing prevented a user from temporarily borrowing a CD, and thus gaining permanent listening access to a recording of the CD. My.MP3.com did take some steps to prevent piracy. My.MP3.com provided only “streaming” content that could not be downloaded to a hard drive.<sup>50</sup> Also, all user accounts required verification of a password as protection against unauthorized use, and no two users could listen to the same account at the same time.<sup>51</sup>

In reaction to the new My.MP3.com service, the RIAA filed suit against MP3.com in New York Federal District Court on January 21, 2000, charging copyright infringement.<sup>52</sup> The RIAA alleged infringement of the reproduction and distribution copyrights in sound recordings owned by the member companies of RIAA.

MP3.com answered the RIAA’s lawsuit with a lawsuit of its own, filed in the Superior Court of the State of California.<sup>53</sup> The suit named the RIAA, the RIAA’s CEO Hilary Rosen, and twenty unnamed persons as defendants. MP3.com accused the defendants of waging a campaign to impugn and disparage MP3.com as supporting music theft and piracy.<sup>54</sup>

RIAA’s CEO, Rosen, called the MP3.com countersuit “ridiculous,” and aired her suspicions that the countersuit was merely a tactic to silence criticism of MP3.com’s infringing activities.<sup>55</sup> Rosen asserted that the RIAA lawsuit against MP3.com was not a condemnation of MP3 technology per se, but rather was a specific condemnation of MP3.com’s actions of “taking music they don’t own and haven’t licensed .... to make money for themselves.”<sup>56</sup>



MP3.com defended its actions on numerous grounds. The foundation of its defense rested upon the premise that the purpose of “copyright law is not to protect copyright holders, it is to guarantee access for consumers to create a viable marketplace.”<sup>57</sup> Therefore, MP3.com argued, the conflict should ultimately be resolved in favor of public access in accordance with the constitutional mandate to give authors rights solely “to promote the progress of science and useful arts.”

MP3.com also argued that its service fell within the fair use exception which “supersedes copyright law,” and therefore allowed consumers to make copies “with no license required” as long as it was “for personal use.”<sup>58</sup> My.MP3.com was cast as a mere “tool” which simply allowed users to copy music from one medium to another, much like the copying for purposes of “time-shifting” permitted in Sony. MP3.com insisted that consumers already “have a right to take the CD they own, rip it and upload it to a remote server,” and therefore “[t]he legal question is whether consumers have a right to end up in the same place with My.MP3.com’s help.”<sup>59</sup> To prove that the service was fair use, MP3.com offered evidence that the service did not damage the market for CD sales, but, to the contrary, actually stimulated it.<sup>60</sup> Indeed, the recording industry did see an 8 percent increase in growth during the first quarter of 2000.

MP3.com also enlisted the first-sale doctrine in its defense maintaining that the service was a consumer right, and that when a purchaser bought a CD he was not merely buying the physical fixation of sounds but was also purchasing a license to listen to that music on any format and on any device in the world. MP3.com CEO, Michael Robertson, explained:

“When an artists sells a CD, they’re selling the right for that person to listen to the music for their personal experience. . . . But once the consumer pays, free and clear, 15 bucks for a CD, then the copyright holder no longer has the right to tell that consumer on what device they can listen to it, whether they can put it on their portable MP3 player, or can they put it on their computer.”<sup>61</sup>

Observers split on whether MP3.com’s arguments were sound. University of California at Berkeley law professor Mark Lemley agreed with Robertson that the My.MP3.com service was technologically equivalent to a user’s making a copy for personal use and expressed doubt that the RIAA would prevail in its lawsuit.<sup>62</sup> Peter Jaszi, a copyright law specialist at American University said, however, that the fair use exemption did not clearly apply to My.MP3.com.<sup>63</sup>

The legal wrangling between the RIAA and MP3.com came to a head on April 28, 2000, when a

New York District Court issued an order holding MP3.com liable for copyright infringement.<sup>64</sup> In making the decision the court relied primarily on the four factor balancing test of the fair use doctrine.

Regarding the first factor, the purpose and character of the use, the court found that MP3.com’s use of the unauthorized copies was indisputably commercial, pointing to MP3.com’s ability to “attract a sufficiently large subscription base to draw advertising and otherwise make a profit.”<sup>65</sup> The court rejected MP3.com’s claim that the My.MP3.com service was “transformative” because it utilized a “space-shift” model by which users could listen to their CDs “without lugging around the physical discs themselves.” The court held that MP3.com’s claim was “simply another way of saying that the unauthorized copies are being retransmitted in another medium.”<sup>66</sup> Furthermore, My.MP3.com was not transformative because it added no new “new aesthetics, new insights and understandings” to the original music recordings.<sup>67</sup>

Applying the second factor, the nature of the copyrighted work, the court found that the copied recordings were “close[ ] to the core of intended copyright protection,” and therefore, “far removed from the more factual or descriptive work more amenable to ‘fair use.’”<sup>68</sup> Regarding the third factor, the amount and substantiality of copying, the court found that it was undisputed that MP3.com copied the entirety of the copyrighted works and thus negated any claim of fair use.<sup>69</sup>

Considering the fourth factor, the effect of the use on the potential market for the copyrighted work, the court found that MP3.com’s activities invaded the plaintiffs’ statutory right to license their copyrighted sound recordings to others for reproduction.<sup>70</sup> The court held that “[a]ny allegedly positive impact of defendant’s activities on plaintiffs’ prior market in no way frees defendant to usurp a further market that directly derives from reproduction of the plaintiffs’ copyrighted works.” The court clarified that a copyright holder’s “exclusive” rights included the right to curb the development of a derivative market by refusing to license a copyrighted work.<sup>71</sup>

MP3.com’s reliance on other factors received similar treatment from the court. MP3.com’s claim that My.MP3.com provided “a useful service to consumers that, in its absence, will be served by ‘pirates’” was discarded by the court because “[c]opyright . . . is not designed to afford consumer protection or convenience but, rather, to protect the copyright holders’ property interests.”<sup>72</sup> The court complained that MP3.com’s “consumer protection” argument amounted to “nothing more than a bald claim that defendant should be able to misappropriate plaintiffs’ property simply because there is a consumer demand for it.”<sup>73</sup>



## DISCUSSION

The district court dismissed MP3.com's "useful service to consumers" argument too lightly. The court incorrectly asserted that the purpose of copyright law was not "to afford consumer protection or convenience, but rather, to protect the copyright holders' property interest."<sup>74</sup> In fact, the purpose of all U.S. copyright law is to facilitate the dissemination of ideas into the public sphere. The Supreme Court explained this purpose in the landmark case of *Mazer v. Stein*:

The copyright law . . . makes reward to the owner a secondary consideration . . . . [It is] intended definitely to grant valuable, enforceable rights to authors, publishers, etc., without burdensome requirements; 'to afford greater encouragement to the production of literary [or artistic] works of lasting benefit to the world.' . . . The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.' Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.<sup>75</sup>

MP3.com's distribution model provided a way for consumers to more readily access their music, while still preserving the recording artists' ability to profit from CD sales. In doing this, MP3.com accorded itself with the primary goal of copyright law, i.e., to retain for authors the benefit of their labors while at the same time enriching the public sphere.

The court considered only whether transformative, use (i.e., adding the defendant's own creativity to the plaintiff's copyrighted material) could be regarded as fair. It did not consider whether "consumptive" use (i.e., use afforded to purchasers of copyrighted material) was fair. Private use copying is generally regarded as consumptive in character.<sup>76</sup> In the national copyright law of a number of countries, there is a specific private use copying privilege which makes consumptive use fair.<sup>77</sup> This accords with the generally held consumer belief that included in the purchase price of a copyrighted work is the implicit understanding that the consumers is entitled to make private use copies.

The consumptive fair use concept recently found support in a Ninth Circuit case *RIAA v. Diamond Multimedia Systems*.<sup>78</sup> There the court found that computer users had the right to "space-shift", i.e., that they could make additional copies of digital files of lawfully obtained music in order to listen to them in different

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## OREGON STATE BAR INTELLECTUAL PROPERTY SECTION

# INTELLECTUAL PROPERTY ESSAY CONTEST 2001

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*The Oregon State Bar Intellectual Property Section invites you to enter our Intellectual Property Essay Contest. You may write on any intellectual property topic including, but not limited to, patent, copyright, trademark, trade secret, and trade dress. You may comment on recent court decisions, theorize on upcoming decisions, or analyze trends. You may make the topic as broad or as narrow as you would like, keeping in mind the page limitation.*

*Entries will be judged on the quality of the writing, the appropriateness of the topic, and thoroughness. Judges will be local intellectual property professors and professionals.*

*Submissions must be no longer than fifteen double-spaced pages and must be submitted on 8.5"x11" white paper. A cover page with the title of the essay and the author's name, address, phone number, and school affiliation is not counted in the fifteen-page limit. Text pages should be numbered, but should exclude identifying information to allow anonymous judging.*

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places. Such copying, the court held, was “paradigmatic non-commercial personal use,” which was entirely consistent with the copyright law.<sup>79</sup>

The My.MP3.com service allowed users to do essentially the same thing. Users took music that they had already paid for and “space-shifted” it in order to listen to it from a different device. The difference was that a user was not actually accessing copies made from the user’s original CD. The district court focused on this difference, and thus failed to separate a consumer’s purchase of the tangible embodiment of a musical work from a consumer’s purchase of the intangible right to listen to a particular musical work. My.MP3.com was an extension of the consumer’s right to listen to a musical work once paid for, even though the digital file is not technically the same tangible embodiment of the musical work.

This problem calls into question whether the notion of a copy remains an appropriate mechanism for achieving the goals of copyright in the age of digital information. The unauthorized copy itself is not the evil against which copyright law is intended to offer protection. The harm lies in unauthorized copies which enable the misuse of a work (e.g. unauthorized distribution); not in the act of reproduction itself. The control of unauthorized copying is merely the means by which to offer copyright protection and not the end. If no misuse results from the making of an unauthorized copy, the act of copying itself should not be proscribed.

Unauthorized copying is not a good predictor of infringement in the digital world because there are many innocent reasons to make a copy of a work. Copies made for the purpose of providing access to the work and that do not serve as substitutes for the original and which have no impact on the rights holder are an example. The copies on the My.MP3.com server just such copies. They were made for the purpose of ease of access and not to supplant sales.

The My.MP3.com service did not negatively impact the recording industry’s potential market for CD sales.<sup>80</sup> As the Supreme Court indicated in the *Sony* case, “A use that has no demonstrable effect upon the potential market for, or the value of, the copyrighted work need not be prohibited in order to protect the author’s incentive to create. The prohibition of such noncommercial uses would merely inhibit access to ideas without any countervailing benefit.”<sup>81</sup>

The RIAA members were compensated for their labors. A royalty was paid when the consumer bought the original CD, and a second royalty was paid when My.MP3.com purchased the same CD for its server. The only potential market upon which the My.MP3.com service infringed was the market for the recording industry to license music for digital distribu-

tion. This market would result in the payment of a third royalty for the same piece of music merely because it existed in a different format. As a result of the court’s decision, this is exactly what the RIAA got. The parties entered into such a licensing agreement shortly after the court’s decision was handed down.

This calls into question whether the “rewards commensurate with the services rendered” policy of *Mazer* is being abused and whether the “public welfare” is actually being advanced. Paying the RIAA again and again for the same material does not coincide with the constitutional aim of rewarding authors for the production of new creative works. Viewed in this light, My.MP3.com’s “useful service to consumers” argument holds a great deal of validity. Validity which was too hastily overlooked by the district court.

## CONCLUSION

After the decision, My.MP3.com halted access to major-label music on its database, claiming that the removal was a voluntary showing of good faith as no injunction was issued in the district court’s ruling.<sup>82</sup> However, the move may have just been a tactic for increasing leverage during subsequent negotiations for a licensing and settlement agreement with the RIAA. MP3.com CEO, Michael Robertson, remained “optimistic about securing a license” and promised to “remain a beacon of progress in the digital music space.”<sup>83</sup>

Whether MP3.com will in fact continue to be a “beacon of progress” remains to be seen. For now the My.MP3.com experience serves as a beacon in a way that MP3.com had not intended. MP3.com currently serves as a warning for would-be innovators on the cyber frontier. Just because the old intellectual property regimes don’t seem to be relevant in cyberspace doesn’t mean that they won’t be applied. To the contrary, it appears that until Congress addresses the unique dilemma of intellectual property protection on the Internet, the traditional guidelines will be enforced and they will carry with them the traditional penalties.

<sup>1</sup> *Ripoff Artists*, PC Computing, Nov. 1, 1998, at 85.

<sup>2</sup> *RAII v. Diamond Multimedia Systems*, 180 F.3d 1072, 1074 (9th Cir. 1999).

<sup>3</sup> Ryan S. Henriquez, *Facing the Music on the Internet: Identifying Divergent Strategies for Different Segments of the Music Industry in Approaching Digital Distribution*, 7 UCLA ENT. L.Rev. 57, 63 (1999).

<sup>4</sup> Brett Atwood, *Study Predicts a Digital-Download Bonanza*, BILLBOARD, Apr. 24, 1999, at 80.

<sup>5</sup> *Id.*

<sup>6</sup> See (visited Oct 8, 2000) <<http://www.sdmi.org>>.

<sup>7</sup> *Id.*

<sup>8</sup> Christopher Jones, *SDMI Shape Up or Ship Out* (visited May 9,



- 2000)  
<<http://www.wired.com/news/print/0,1294,35966,00.html>>.
- <sup>9</sup> U.S. CONST. art. I, § 8, cl. 8.
- <sup>10</sup> 17 U.S.C. §§ 101 et seq. (1994).
- <sup>11</sup> *Id.*
- <sup>12</sup> 17 U.S.C. § 101 (2000).
- <sup>13</sup> *Id.* But see note 2, at 1077.
- <sup>14</sup> *Id.*
- <sup>15</sup> *Id.*
- <sup>16</sup> 17 U.S.C. § 106 (2000).
- <sup>17</sup> *Id.*
- <sup>18</sup> 17 U.S.C. § 115 (2000).
- <sup>19</sup> G. PETER ALBERT, JR. et al., INTELLECTUAL PROPERTY LAW IN CYBERSPACE 250 (1999).
- <sup>20</sup> 17 U.S.C. § 101 (2000).
- <sup>21</sup> 17 U.S.C. § 106(6) (2000).
- <sup>22</sup> 17 U.S.C. § 106 (2000).
- <sup>23</sup> *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994).
- <sup>24</sup> *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 417, 448, 454, 104 S. Ct. 774, 78 L. Ed. 2d 574 (1984).
- <sup>25</sup> See *supra* note 23, at 579.
- <sup>26</sup> *Id.* at 570.
- <sup>27</sup> *Id.* at 569.
- <sup>28</sup> WILLIAM F. PATRY, THE FAIR USE PRIVILEGE IN COPYRIGHT LAW 505 (2nd ed. 1995).
- <sup>29</sup> *Id.*
- <sup>30</sup> *Id.* at 549.
- <sup>31</sup> *Id.* at 551.
- <sup>32</sup> *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 561 (1985).
- <sup>33</sup> See *generally supra* note 29, at 557.
- <sup>34</sup> See *supra* note 24, at 448.
- <sup>35</sup> See *id.*
- <sup>36</sup> 17 U.S.C. § 109.
- <sup>37</sup> DONALD S. CHISUM AND MICHAEL A. JACOBS, UNDERSTANDING INTELLECTUAL PROPERTY § 4E[3][c] (1999).
- <sup>38</sup> See (visited Oct. 9, 2000) <<http://www.riaa.com/About-Who.cfm>>.
- <sup>39</sup> *Id.*
- <sup>40</sup> Bob Kohn, *A Primer on the Law of Webcasting and Digital Music Delivery* (visited Jan. 22, 2000) <<http://www.kohnmusic.com/articles/newprimer.html>>.
- <sup>41</sup> *Id.* See also 17 U.S.C. §§ 114, 115.
- <sup>42</sup> *Supra* note 41.
- <sup>43</sup> *Id.*
- <sup>44</sup> *Id.*
- <sup>45</sup> See (visited May 13, 2000) <<http://help.mp3.com/help/faqs/mymp3.html>>.
- <sup>46</sup> *UMG Recordings, Inc. v. MP3.Com, Inc.*, 92 F. Supp.2d 349, 350 (S.D.N.Y. 2000).
- <sup>47</sup> Courtney Macavinta, *MP3.com's move to copy CDs stirs debate* (visited Feb. 6, 2000) <<http://news.cnet.com/news/0-1005-202-1535035.html>>.
- <sup>48</sup> See *supra* note 46.
- <sup>49</sup> *Id.*
- <sup>50</sup> *RAII Sues MP3.com for Copyright Violations* (visited Oct. 10, 2000) <<http://www.livedaily.com/news/964.html>>.
- <sup>51</sup> Patti Hartigan, *MP3.com's Cool New Service Threatens Industry* (visited Feb. 6, 2000) <<http://www.digitalmass.com/news/daily/0128/cyberlinks.html>>.
- <sup>52</sup> See *supra* note 50.
- <sup>53</sup> See (visited Feb. 27, 2000) <<http://www.mp3.com/news/570.html?hparticle0>>.
- <sup>54</sup> *Id.*
- <sup>55</sup> See (visited Feb. 27, 2000) <<http://mp3.com/news/572.html?hparticle2>>.
- <sup>56</sup> *Id.*
- <sup>57</sup> Brad King, *He Wants His My.mp3.com* (visited Mar. 17, 2000) <<http://www.wired.com/news/print/0,1294,34816,00.html>>.
- <sup>58</sup> See *supra* note 47.
- <sup>59</sup> *Id.*
- <sup>60</sup> Brad King, *Despite 'Piracy,' CD Sales Up*, <<http://www.wired.com/news/print/0,1294,35848,00.html>> (visited May 9, 2000).
- <sup>61</sup> Mark Lewis, *LiveDaily Interview: Michael Robertson, CEO of MP3.com* (visited Mar. 17, 2000) <<http://www.livedaily.com/archive/mp3b.html>>.
- <sup>62</sup> Sara Robinson, *3 Copyright Lawsuits Test Limits of New Digital Media*, (visited Feb. 6, 2000) <<http://www.nytimes.com/library/tech/00/01/biztech/articles/24onli.html>>.
- <sup>63</sup> *Id.*
- <sup>64</sup> Brad King, *RIAA Wins Suit Against MP3.Com* (visited May 9, 2000) <<http://www.wired.com/news/print/0,1294,35933,00.html>>.
- <sup>65</sup> See *supra* note 46, at 351.
- <sup>66</sup> *Id.*
- <sup>67</sup> *Id.*
- <sup>68</sup> *Id.*
- <sup>69</sup> *Id.* at 352.
- <sup>70</sup> *Id.*
- <sup>71</sup> *Id.*
- <sup>72</sup> *Id.*
- <sup>73</sup> *Id.*
- <sup>74</sup> *Id.*
- <sup>75</sup> *Mazer v. Stein*, 347 U.S. 201 at 219 (1954).
- <sup>76</sup> National Research Council, *The Digital Dilemma* (visited Mar. 6, 2000) <[http://books.nap.edu/html/digital\\_dilemma/ch4.html](http://books.nap.edu/html/digital_dilemma/ch4.html)>.
- <sup>77</sup> *Id.*
- <sup>78</sup> See *supra* note 2, at 1079.
- <sup>79</sup> *Id.*
- <sup>80</sup> See *supra* note 60.
- <sup>81</sup> See *supra* note 24, at 450, 451.
- <sup>82</sup> *Major Label Content Removed from My.MP3.com Service* (visited Oct. 10, 2000) <<http://www.livedaily.com/news/1166.html>>.
- <sup>83</sup> Brad King, *My.MP3.com Nixes Major Labels* (visited Oct. 10, 2000) <<http://www.wired.com/news/business/0,1367,36259,00.html>>.



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## Markman Hearings Calendar

Contributed by Micah D. Stelowitz  
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The following are pending patent cases in the District of Oregon.  
 Please send an e-mail with appropriate information if I overlooked your case.  
 In some of these cases (shown by an asterisk), the court has rendered an opinion  
 on infringement or on claim construction following a Markman hearing.  
 — Micah D. Stelowitz

<u>Party Name</u>	<u>Case No.</u>	<u>Date Filed</u>	<u>Party Name</u>	<u>Case No.</u>	<u>Date Filed</u>
Phoenix Gold Intl v. Audiobahn Inc	3:00cv1367	10/05/00	Deck Prod. Inc v. Dallman Industrial, et al	3:98cv1206	10/02/98
Edwards Systems v. Digital Control	3:00cv1365	10/04/00	MTI Leasing Inc v. Audio Authority Corp	3:98cv1200	10/01/98
Kai USA Ltd v. Adventure Sports Inc, et al	3:00cv1344	09/29/00	Baker Rock Crushing v. Pacific Rock	3:98cv1139	09/15/98
Larkin Tech. v. B&W Custom Truck	3:00cv1283	09/19/00	Whatley v. Nike Incorporated	3:98cv963	08/04/98
Digimarc Corp. v. Verance Corp.	3:00cv1278	09/19/00	Hallco Mfg Co Inc v. Foster	3:98cv947	07/31/98
Digimarc Corp. v. Verance Corp.	3:00cv0	09/19/00	Larkin Tech. v. Buyers Products Co.	3:98cv844	07/10/98
Kai USA Ltd v. EDC Products LLC, et al	3:00cv1253	09/13/00	Labtec Inc v. Telex Comm.	3:98cv717	06/09/98
Shindaiwa Inc v. Echo Inc	3:00cv1162	08/23/00	SLC Technologies Inc v. C&K Systems Inc	3:98cv655	05/27/98
MSM Investment Co v. Nutratech Inc, et al	3:00cv1134	08/15/00	Mistech Inc v. Kes Irrigation	3:98cv648	05/22/98
Old Town Canoe Co v. Watermark Paddle	3:00cv1054	08/01/00	Phoenix Gold Intl v. Audiobahn, Inc. et al	3:98cv624	05/19/98
Burns Bros Inc v. Pewag Inc	3:00cv879	06/23/00	Great Western Chemic v. Praegitzer Ind Inc	3:98cv617	05/18/98
Koplar Interactive v. Smarttv Inc	3:00cv567	04/26/00	Tektronix Inc v. Integraph Corp	3:98cv599	05/13/98
GTR Patent Inc v. Molded Products	3:00cv483	04/10/00	Cleanpak Intl Inc. v. Huntair Inc, et al	3:98cv586	05/08/98
Versa Corp. v. AG Bag International	3:00cv456	04/05/00	Chemtron Inc v. Mt Hood Chemical	3:98cv573	05/05/98
Digimarc Corp. v. Signum Tech Ltd	3:00cv394	03/17/00	Kai USA Ltd v. Utica Cutlery Co	3:98cv541	04/29/98
Digimarc Corp. v. Verance Corp.	3:00cv344	03/08/00	SLC Technologies Inc v. Tane Services Inc	3:98cv479	04/15/98
Center Spot, Inc v. Hawk, et al	6:00cv6047	02/29/00	Vortekx PC v. Ias Communications	3:98cv415	03/31/98
Cascade Microtech v. Karl Suss America, et al	3:00cv256	02/22/00	SLC Technologies, Inc. v. George Risk Inds.	3:98cv 321	03/10/98
Acumed Inc v. Innovasive Devices	3:00cv222	02/11/00	Hayden, et al v. Shin-Etsu Handotai, et al *	6:97cv1752	12/09/97
Kai USA Ltd v. Leatherman Tool GRP	3:00cv114	01/24/00	Hayden, et al v. Shin-Etsu Handotai, et al	3:97cv1752	12/09/97
Kai USA Ltd v. Great Neck Saw MFR	3:00cv32	01/05/00	Demarini Sports Inc. v. Worth Inc. *	3:97cv1693	11/28/97
Larkin Tech. v. Buyers Products Co	3:99cv1614	11/15/99	Cascade Microtech v. Micromanipulator Co	6:97cv1634	11/18/97
Industrial Adhesives v. Linear Products, Inc., et al	6:99cv6261	10/22/99	Cascade Microtech v. Micromanipulator Co	3:97cv1634	11/18/97
Columbia Trailer Co v. Phelps Industries	3:99cv1435	10/08/99	MSM Investment Co v. Jacob, et al	6:97cv1522	10/24/97
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Wells v. Leki USA Inc, et al	3:99cv583	04/22/99	Wilson, et al v. Fujisawa USA Inc	3:97cv1422	10/03/97
Wells v. Leki USA Inc, et al	6:99cv583	04/22/99	Wilson, et al v. Fujisawa Healthcare	6:97cv1422	10/03/97
Translogic Tech Inc v. Hitachi Ltd, et al	3:99cv407	03/24/99	Cascade Microtech v. Micromanipulator Co	6:97cv479	04/01/97
Simonds Industries, et al. v. Laharco, Inc.	3:99cv00299	03/01/99	Cascade Microtech v. Micromanipulator Co	3:97cv479	04/01/97
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SLC Technologies Inc v. Detection Systems	3:98cv1254	10/13/98	Morvue v. Trienco, et al	3:80cv675	07/14/80
Halsen Designs Inc v. Answer Products Inc	3:98cv1232	10/09/98	Pacemaker Diagnostic v. Instromedix	3:79cv601	06/05/79
Orenco Systems Inc v. Zoeller Company	6:98cv6277	10/02/98			

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