



Database Protection: Legal Minefield or Valuable Investment?

Database Protection: Legal Minefield or Valuable Investment?

LESLIE GARDNER: The Association of Corporate Counsel and SmartPros Legal & Ethics welcome you to today's broadcast: Law About Databases.

[The instructions provided here were intended for attendees of the live webcast when it was originally broadcast. You may submit questions and comments regarding the content of this course using the [Questions and Comments](#) link on the left side of your screen below the video.]

Our presentation today will be moderated by a wonderful panel who will now introduce themselves.

JOANNE HENKLE: Good morning and good afternoon, depending on where you're at. My name is Joanne Henkle. I'm senior counsel with The Bank of New York Mellon and I negotiate licenses for a lot of different types of data.

HAROLD FEDEROW: My name is Harold Federow. I'm currently contract and vendor manager at the Port of Seattle and I also negotiate a fair number of licenses for data.

MARC LIEBERSTEIN: Hi, my name is Marc Lieberstein. I am a partner with Kilpatrick Stockton. I'm based in the New York office and my practice focuses mainly on intellectual property protection. About 50 percent of my practice is licensing and the other 50 percent is litigation.

[The CLE code and instructions provided here were for use only by attendees of the live webcast. To obtain your CLE certificate for this archived webcast when you have finished listening to it, click the [EXIT COURSE](#) button at the top right of the screen to return to your [My Courses](#) page and then click the certificate link or icon beneath the course listing. In the pop-up window, select the desired jurisdiction from the drop-down list and enter any requested data, such as your bar number and the CLE code that popped up while you were playing the archived webcast. (This code is required for New York and Ohio attorneys only.)]

JOANNE HENKLE: Good morning again, everybody. I want to start off with the [question]: Database protection: legal minefield or valuable investment? The first thing I want to say is that the views expressed here are not necessarily the views of the presenters' employers and represent more the views of the actual presenters themselves.

Before we get started, we thought it might be useful to define databases. We've got two definitions here. The first one was put together by Marc, which is a collection of information, factual in nature, but comprising a subject matter that may or may not be copyrightable. Or if you go to the circular regarding copyrights, the definition of a database is defined as "a body of facts, data, or other information assembled into an organized format suitable for use in a computer and comprising one or more files."

It's not quite as simple as that, as you'll see from some of the cases that we're about to go through. [With] databases, both the content of the database may be copyrightable, and in some cases where you've got content that's not copyrightable, it may actually be your organization of the data that is copyrightable.

MARC LIEBERSTEIN: Right, just to add to that—this is Marc Lieberstein—really what's copyrightable about any database, depending upon what it's comprised of, is probably its selection, arrangement [or] organization. The creative way in which something is put together is really what would make it copyrightable, assuming it's a factual database filled with factual content. Obviously if it's creative content, then the selection, arrangement, coordination or organization is not as necessary for copyright protection.

LESLIE GARDNER: It seems like it's time we should probably launch our first poll. Here it comes. Are you a database owner? Please select one: yes or no.

The audience is voting now. Quite a few are coming in.

MARC LIEBERSTEIN: Harold, you want to take the next slide while the audience is being polled?

HAROLD FEDEROW: Can we do that?

LESLIE GARDNER: The audience is seeing the poll question right now. I'm going to close the poll. The voting has stopped. Database owners: We have 79 percent of our audience that are database owners and 21 percent are not.

MARC LIEBERSTEIN: So, we've listed here several examples of databases. One of them is, of course, financial data, whether it's listings of share prices [or] prices of commodities. The examples are numerous. Sports data—for all those of you that check the sports pages every day, you can compile all that information into databases. Airline data, for example, where I am, information about the actual physical airplane, when it lands, when it takes off, what gate it uses. News data: If you go to, for example, *The New York's Times'* Web site, they have a large compilation of past issues and information on past articles. Real estate data: For any of you that have used Craigslist, for example, there are lots and lots of listings. It could be real estate for multi-listing services, where you can view houses and their prices and locations. So, databases are everywhere.

Most of you are probably logged into Internet Explorer through using Microsoft Office. Your ability to log on is governed by something called Active Directory, which is a database of names and the associated permissions. We find lots of databases and, of course, therefore, lots of licenses that attach to them.

LESLIE GARDNER: Now we'll launch the second poll. Are you a database licensee or purchaser? Please select one: licensee or purchaser.

The audience is voting now. We'll close the poll shortly. I'm going to close the poll. With 58 percent of our audience voting, 63 percent are licensees and 37 percent are purchasers.

Following up on that, we have our third and final poll. Is your database content creative or factual in nature? Please select one: creative, factual, or a blend of both.

The voting is taking place. We have a good percentage this time. I'm going to close the poll.

With 67 percent of our audience voting, we have 27 percent as a blend of both, 73 percent is factual, and 0 percent is creative. Now I'll hand the presentation back over to our panelists. Thank you.

MARC LIEBERSTEIN: Thank you very much for those answers. The reason why we wanted to take that poll is because we thought it might help us help you in going through the rest of the presentation, sort of giving you more practical advice as we're going through the cases and things of that nature.

This next slide sort of sets up the rest of the presentation. We're going to go through some of the techniques that we're all aware of for protecting databases, the first one being copyright. We already spoke about selection, arrangement, layout [and] organization. The second being contract. Hopefully most of you are familiar with shrink-wrap, click-wrap,

browse-wrap agreements, license agreements straight up, and then some other sort of related types of contracts—whether they’re passive or active is a question—but encryption formats, passwords, things of that nature where someone is literally taking steps to acknowledge that they’re not allowed to take what they’re about to see.

Then there’s a third aspect or third technique for protecting databases and that’s appropriation. When we talk about misappropriation we mean trade secret, we mean possibly trespass to chattel. We mean that there are certain types of state statutes that cover computer fraud or accessing a computer database without permission, which is in some states considered a crime. We will be discussing these various different ways of protecting databases in the coming slides.

The first thing, I think, we need to discuss is basically the seminal case, which sort of changed the landscape a little bit: the *Feist Publications v. Rural Telephone Service Corporation* case, which was a Supreme Court decision in 1991.

The reason why it’s so important is because prior to that time, there were decisions in the circuits [and] decisions in the district courts which sort of were going both ways. They would actually go out of their way to protect a database if it was proven that someone spent millions of dollars or hired hundreds of people or it’s just really “sweat of the brow” type of protection as opposed to really what the law was, which was that sweat of the brow does not give one copyright protection. Originality, creativity: That is what is appropriate subject matter for copyright.

The Supreme Court, in *Feist*, really came down and said that copyright has to be original. It cannot just be a set of facts. So they discussed the fact versus expression dichotomy, which means that you don’t necessarily have protection in facts themselves, but you might have copyright protection in the way you express those facts, in the way you’ve selected, arranged [or] laid them out. That’s where your copyright would lie, but not necessarily in the facts themselves. While original factual compilations or gatherings of data may be copyrightable, the facts that are actually in those compilations may not be.

Then, of course, the Supreme Court came out and said that the threshold for such copyrightability is very low. And I think it’s very easy to take the *Feist* case—and we’ll start with the next slide really to discuss some cases in more detail—but the *Feist* case involved a telephone directory. It was very clear that the Supreme Court said, “You know what? An alphabetical listing—that is not going to meet the threshold level for copyrightability, no question. If there’s anything clear that comes out of that case, that’s what comes out of that case. While we know what will not meet that threshold, it’s a little fuzzy as to what actually will meet the threshold, as hopefully some of you had experience with.

And we’re going to discuss some of the cases now. Joanne, you were going to take the *CCC* case?

JOANNE HENKLE: Right. This is the *Red Book* case; and the *Red Book* was a list of used car values similar to the *Kelley Blue Book* or the *NADA* [National Automobile Dealers Association] book. In this case, however, the court found that the used car values were copyrightable because they found that they were not expressions of facts; that the editors used their own judgment in determining what to take into consideration, how they divided up the regions, how they broke up in \$5,000 increments [and] how they valued the different add-ons to the cars in coming up with the car values. Therefore, *Maclean’s* was able in that case to recover against *CCC*.

CCC did make an argument in this case that the *Red Book* was referenced in some state statutes regarding the recovery for insurance purposes of damaged cars, and, by its reference in statute, tried to state that the *Red Book* was now out for public consumption. The court did not buy that in this case, although you’ll see in some other cases, the court will buy that discussion in other cases.

MARC LIEBERSTEIN: What’s really great about the way this sort of sets up: You have what happened in 1991 in the Supreme Court case, you then have the *CCC* case decided by the Second Circuit, and then we decided to take a look at what’s been happening a little bit more recently.

A very interesting case in the Seventh Circuit in 2003 is the *Assessment Techs* case, which involved a plaintiff that collected data that was collected by state municipalities about real estate values for tax purposes. The contrast between what they did in *CCC*—what the plaintiff did to collect the data: editing, judgment, experience, placement, selection, and things of that nature—all of that was completely missing from what the plaintiff was collecting in the way of data in the *Assessment Techs* case, and that’s really what the Seventh Circuit focused on. They saw no real way that they could possibly give protection to a plaintiff that merely collected the data of a municipality that was available for everyone to see and look at, and all they did was—literally, they were likened to a bin where the municipalities would just dump the information. There was no real organization or selection or layout to it that was deemed to be worthy of copyrightability. In other words, it wasn’t really original or creative. And therefore, since the defendant only took the raw data—in other words, it didn’t take any of the structure that the plaintiff developed (the little that there was)—and since the material that was collected by the plaintiff didn’t even meet the lowest threshold for copyrightability, the court in that case found no copyright protection.

Which leads us to the next, more recent, 2008 case, which, I think, Harold, you were going to discuss.

HAROLD FEDEROW: Yes. This is also a Second Circuit case, just like the *Red Book* case that Joanne discussed. This is still a different situation than the other two. What happens—and Joanne, if I get the securities aspects wrong, please correct me. Fundamentally, when you have a futures contract, which is a contract for a future purchase or sale of a commodity at a specific date [and a] specific price, each day—typically these contracts are long-term; they could be months; they could be years. So the New York Mercantile Exchange each day at the close of trading would value these particular contracts, which in case of the New York [Mercantile] was energy commodities, so gas, oil, for example, natural gas and crude oil. At the end of the day, it had to come up with a value for each of the contracts. This is required by Commodities Futures Trading Commission regulation, and they had to publish those. Some of the higher-volume contracts then are somewhat easier, but [for] the low-volume contracts they still had to come up with some sort of a valuation number. This was attacked on two grounds: one, whether the prices were copyrightable in the first place. The second ground was copyright doctrine of merger.

Let me deal with the first point. That is, the court really ducked the issue of whether you can really copyright these numbers. They looked at two analogies: One, a scientific fact is not copyrightable. Another example they used was census takers, where the Census Bureau—as we all know is happening this year—sends people around to collect data which are then compiled in these huge federal databases the Census Bureau maintains. The question they asked you was: Are they creating—the [Mercantile] had a committee to create these futures prices. The question is: Are they creating the settlement prices or is it more like a census taker sort of looking at what the market actually did and recording that?

The court actually said, “No, we’re not going to decide on that basis. It’s a close question.” It was at summary judgment stage. They weren’t really comfortable, but what they did [was to] say that there is a doctrine in copyright called “merger,” where if there’s only one or a few ways of expressing an idea, that protecting the expression of the idea, which is what copyright does, in essence accords protection to the idea itself.

A simple example that most people have heard of is, for example, Einstein’s equation $e=mc^2$, where there’s only one way to say it. (I should warn you I have a physics background, but I won’t go there.) The court said that the idea that they were looking at is the price of a particular futures contract at a close of trading, and that it merges the expression—which is the actual price they come up with—merges with the idea, so that based on that, the Second Circuit said the New York [Mercantile] was not entitled to a copyright and therefore Intercontinental Exchange, who was also publishing the prices, did not infringe.

MARC LIEBERSTEIN: Harold, was there a hot news aspect to that case as well?

HAROLD FEDEROW: No actually, at least the court didn't focus on that. Clearly hot news—which means, for example, breaking news on something that just comes up and it was recorded—the court didn't focus on that aspect. I suppose there might be. The [Mercantile] publishes these prices and gives, I think, certain people an advance notice, but the court didn't look at it that way.

MARC LIEBERSTEIN: Just for the audience, we will discuss a hot news type of claim a little bit later, but I was just curious if that came up in that case.

HAROLD FEDEROW: No, the court just focused on whether there was a copyright in the first place, said “We're not going to decide,” but said the merger doctrine comes in, since this number is the price and the only way to express the idea of the closing price, there's no copyright.

MARC LIEBERSTEIN: I think after this short discussion of some of the more often discussed copyright cases, you come away with that copyright may or may not be the best way to protect your database. So, we're going to discuss another way to protect your database and that's contracts. Harold, you were going to continue on with *ProCD*.

HAROLD FEDEROW: Right. The *ProCD v. Zeidenberg* case is a classic case for several reasons. It was one, as you see on the slide, a Seventh Circuit case from 1996. It was one of the first Circuit Court of Appeals cases to enforce shrink-wrap licenses at a time when it was not clear whether these were enforceable or not. So, the facts: What ProCD did was, it would compile information, at the time, for more than 3,000 telephone books into a database. It would then sell that database to various people. Because, for example, let's say you are a machine tool manufacturer and you want to figure out what companies might sell machine tools, you could slice and dice the data lots of different ways. They added in industrial codes for example, ZIP codes, and a search engine, so you could really do a lot.

And there was no question the search engine was protected. The question is whether the database itself was protected. The court said, “Well, there is this *Feist* case.” They had some problems with deciding if it could be copyrighted, however, it did have a shrink-wrap license. The shrink-wrap license basically prevented you from commercial use.

I should step back one. ProCD made two versions available. The one they sold was available for industrial use, and you pretty much could do what you wanted with the data. They sold a customer version, in essence. For example, you could use it to look up friends you hadn't seen in 20 years, with a restriction that you could only use it for noncommercial purposes. What Zeidenberg did was take the consumer package, repackage the data, and sell it for obviously commercial purposes in violation of the shrink-wrap license.

MARC LIEBERSTEIN: What you sort of get out of that is that the court just didn't like what Zeidenberg did, right?

HAROLD FEDEROW: Fundamentally, the court did not like what Zeidenberg did. It upheld the shrink-wrap license, treated the license as a contract governed by common law contracts and the UCC, and basically said, “By breaking the package—this was a shrink-wrap—you agreed to the license. The license said you can't do this; you're in breach.”

I should say that *Nimmer on Copyright* has seriously criticized this opinion. It was very controversial at the time, as I remember, because a lot of people thought, “Is there really an enforceable contract? Did people agree to the terms?” Et cetera, etc. The net result was the Seventh Circuit said, “Yes, we don't like what Zeidenberg did. It's not right and we will enforce the shrink-wrap against him.”

MARC LIEBERSTEIN: What's also interesting about Nimmer—because I know we discussed how Nimmer sort of despises the Seventh Circuit decision in *ProCD*—Nimmer goes back to what the Seventh Circuit decided in *Assessment Techs*. What he actually said is that the Seventh Circuit literally reversed itself when it decided that there was no ability to protect the database in *Assessment Techs*, which is the one we discussed on the previous page with

respect to real estate value. He quotes a sentence from Judge Posner's decision where he said Judge Posner had given an analogy about Westlaw licenses. I'll read the sentence just so you guys can read it. It says: "Westlaw cannot prevent its licensees from copying the opinions themselves as distinct from the aspects of the database that are copyrighted." Nimmer feels that that particular quote really undermines the *ProCD* holding because essentially that's exactly what the court restricted from happening in *ProCD*. If you ever have a chance to read the Nimmer discussion, it's quite lengthy, but he really thinks that *ProCD* was wrongly decided.

HAROLD FEDEROW: One of the sections he brings up is the pre-emption section of the Copyright Act, which courts have—and you'll see it's in the case that we're talking about—mostly disposed of. But it says that states can in essence create their own copyright laws or rights equivalent to copyright. Many courts have said, "Well, but this is a contract; it's not a copyright," even though in essence what it does is wind up controlling the copyright. That's what Nimer's issue is.

MARC LIEBERSTEIN: Thanks, Harold.

Next we're going to take a look at two cases that dealt with terms of use: *Register.com* and *Ticketmaster*. *Register.com* was kind of an interesting situation. You had a Web developer versus a domain name registrar, and really the court paid a lot of attention to this trespass to chattel claim. They really felt that what the domain name registrar was doing, which was basically taking names that the Web site developer was soliciting customers for, and the domain registrar would then go after them. They would take the WHOIS data to generate mass mailings and solicitations to the actual Register.com customers.

Aside from the fact that the court viewed that as a direct competition and a misuse of the Register.com information, they really focused on the fact that what Verio.com was doing was really hurting the Register.com business, because what Verio was doing was sending these search robots into the Register.com database and doing so at-will pretty much. Register.com was able to show that if they were able to continue to do this, they could slow down the rate of access to their database. They could interfere with the database from working. So, because there was a contract between Verio and Register.com, which did restrict the use, and even though it wasn't that clear that Verio entered into that contract—literally signed something—Verio did admit that it knew the terms of use [and] sort of ignored them anyway. The court found that that was enough to place them on notice of the terms. Since they knew about the restrictions on the use [and] violated those restrictions, the court found that the contract was enforceable against them.

Pretty much that was very similar to what happened in the *Ticketmaster* case. I put them together because I felt that one was a 2004 decision and another one was a more recent decision in 2007. It shows you that the courts get angry, so to speak, at the bad guys who are coming in and taking the data, even though these guys know that the terms of use that they shouldn't be doing that.

In the *Ticketmaster* case, they actually granted a preliminary injunction based on all those harms. And more specifically, again, the RGM Techs—the bad guys—they had sort of created an automated device which would automatically access and copy the Ticketmaster ticket information. I believe the way it was described in the case was: They could buy like whole lots of tickets and prevent, obviously, the average Joe Consumer from buying a ticket. They could obviously also usurp the database, literally slow it down, [and] make it more difficult for regular consumers to come in.

Interestingly, there was again, in addition to a direct copyright claim, there were allegations of contributory or indirect copyright infringement raised in that case. The court discussed DMCA [Digital Millennium Copyright Act] violations. Those are the circumvention provisions that we are going to discuss in a little bit, which they felt the bad guys had violated the DMCA provisions which prevent circumvention. Again, so that the Central District of California discussed the trespass to chattel claim and, across the board, they pretty much found a likelihood of success on the merits in all of those claims.

In addition, there was one final claim which is sort of different, [that] makes that case a little bit different from all the others. In that particular case, they raised a violation of the Computer Fraud and Abuse Act. That was a little bit different. I don't know how many states have that particular statute. It's a criminal statute, but the court noted that civilians could actually raise that particular criminal statute in this type of situation. They couldn't put the defendant in jail, but they could get the criminal penalties that are in the act.

Joanne?

JOANNE HENKLE: I think from what you said there, what starts to be apparent—at least from these cases where there isn't a copyright—is that courts will still protect the sweat of your brow even if what you put together wasn't copyrightable.

MARC LIEBERSTEIN: Despite the *Feist* case.

JOANNE HENKLE: Despite the *Feist* case, because what we have here in the *Matthew Bender* case is a one-page decision. It's an interim decision on a motion to dismiss, where the court found that the content that Bender was putting up was not copyrightable. However, they sent it back to the lower court because they said Bender may still have a breach of contract claim for the violation of the shrink-wrap agreement, and they stated that the shrink-wrap agreement is enforceable against a competitor. I think we start to see a few trends here, in that, especially if you are a competitor and you're taking somebody's work for the purpose of competing against them, that's something the courts are generally not going to sanction or help you do, especially if you have signed a contract that says that you're not going to do that.

Harold and Marc?

MARC LIEBERSTEIN: Right, and that continues on in the *Bowers* case also.

HAROLD FEDEROW: Right. The *Bowers* case is a case that the Federal Circuit—for those of you who aren't aware, the Federal Circuit has exquisite jurisdiction of appeals in patent cases and then if there are other issues, as there were here, those just come along and the Federal Circuit decides them. In the *Bowers* case—I don't understand the software. It's computer-aided design [CAD] software. Many of you probably have CAD teams in various places, but Bowers had invented a—I guess CAD software typically has very deep menus, so you may have to go down four or five levels to actually find the command you want, and he came up with a template that helped that problem, so it made it a lot easier to use. He filed for a patent. Since it was software, it was also copyrightable. He got a copyright. Then Bay State basically created its own software, which virtually duplicated what Bowers did. Bowers, not too surprisingly, was a little unhappy and eventually sued. He won on jury trial, and there were a couple of different issues that came up.

The issue we're focusing on here is whether the shrink-wrap agreement was enforceable. It had a term in it to prevent reverse engineering. Reverse engineering has been interpreted to be permitted by the Copyright Act under the fair use provisions. And this particular license had a provision saying "no reverse engineering." This raises the issue that Nimmer raised, which is the section about the Copyright Act pre-empting state law claims to the contrary. The Federal Circuit, under its rules—on this particular issue, because the case arose in the First Circuit on copyright infringement issues, it would look to the law of the First Circuit—said that the First Circuit will respect the contract and not set aside a contract that was freely entered into, in spite of § 301(a), which is the pre-emption provision. It felt that the First Circuit hadn't totally addressed it, or squarely addressed it, but basically thought that the way the other cases came up, that they thought the First Circuit would enforce the contractual provision, and therefore the shrink-wrap agreement preventing reverse engineering was in fact enforceable.

Just as a side note, [and] not really relevant to our discussion, Bowers lost on his patent claim.

MARC LIEBERSTEIN: It's funny, I made the same note, and I really thought that was interesting. What I get out of that is that I think it shows you the power of contracts in these types of situations.

HAROLD FEDEROW: Exactly.

MARC LIEBERSTEIN: Just the fact that you may not have a copyright infringement claim, despite the fact that you may lose on your patent infringement claim, you could still win if you have a good contract in place.

HAROLD FEDEROW: The contract here specifically did prohibit reverse engineering. The court went through the jury findings and basically found that, to read the case, it looked like they almost did straight copying. It didn't come up. There might have been an issue of merger, where if there's only one way to do it, maybe they couldn't get a copyright, but that didn't come up. The take-away is: This is a case that enforced the agreement.

MARC LIEBERSTEIN: Right. And now, of course, we have a few more cases. We're doing this for a reason, because we think it really sets up the rest of our presentation. We have a few more cases, but we wanted to show you some contracts that didn't work and sort of discuss why they didn't.

The first one is a pretty well-known case called *Specht v. Netscape*. I hope everyone remembers Netscape, but Netscape had a software agreement. It was a plug-in that people would download. Really, back when Netscape was doing a lot of business, most people would just plug in the software. They wouldn't read the Netscape terms. A bunch of users got a little angry at the fact that their privacy—or at least they felt that their privacy was being violated when they downloaded the plug-in, and they wanted to take Netscape to court. The users wanted to take them to court, but the Netscape software agreement said that they had to go to arbitration. The question was whether these provisions of the Netscape software agreement—the user agreement—were enforceable against all of the users who, for lack of a better word, just didn't really even know that they had an agreement in place.

The Second Circuit did a pretty lengthy discussion about how they weren't invited to look at the Netscape agreement. There was no real incentive—there was no real direction—for anyone to look at the Netscape agreement, and then accordingly there was no notice or assent by any of the people who downloaded the software, and therefore that agreement was not enforceable. It sort of sets the groundwork for what you should not do when setting up your downloads or when setting up your database for access.

It brings us to the next case. I'm sorry. Harold, were you—

HAROLD FEDEROW: Yeah, I just want to point out that there have been a lot of cases on how enforceable browser-wraps are, and they are all over the place. Back when there was an America Online, it lost several cases because people didn't feel the assent was clear, so this particular area—you should just warn people that this is a very controversial area.

MARC LIEBERSTEIN: I think, nowadays, with the way software downloading has progressed, the technology is such that you almost have no excuse for not being so express and explicit about making sure that whoever is doing the downloading agrees to your agreement.

HAROLD FEDEROW: Most software these days does in fact have a “Click ‘I agree’” somewhere in the installation step. I have to admit—and this is Harold—I've written a lot of those things and I almost never read it.

JOANNE HENKLE: I think what some of these cases are showing, especially since different circuits are coming out

differently, is that you almost need a cascading protection on databases, even if you think it's copyrightable and if that's your first choice for protection. And [if] it's factual, since we've got a number of owners here [with] factual data, you want to show where you've included your own judgment either in creating the data, like with the valuations, or, if it's purely factual data, you want to try to show some sort of creativity or judgment in the data that you've assembled into that database and what you've chosen and how you've chosen to organize it.

If you fall on that category, then you want to have a good contract in place. A good contract means both as to terms and how you bound the person agreeing to those terms. If you're putting your database where your competitors can get at it, it looks like courts are pretty willing to enforce your contracts against your competitors, but again you want to make sure that you can bind the competitors in order to increase your probability that you're going to be able to protect your data.

As we're going to start seeing in some of the cases that are coming up, though, if there are some public policy reasons why they either don't want to protect your data under copyright, because it would give you a monopoly on data that the general public would find useful, they probably won't do that. Or, in the alternative, if there [are] other public policy reasons why they may not want to enforce your particular copyright, courts have gone to some pretty interesting lengths to do that.

MARC LIEBERSTEIN: Right. And I'm going to spend two more seconds just to draw a little distinction between some of the cases we've discussed and the *eBay v. Bidders* case. The reason why that the term of use agreement was not enforceable in the *Bidders* case is because Bidders never entered into a contract with eBay. In fact, they couldn't agree on a license agreement. Bidders would just use its auto-query system to go into eBay's system and download information—download the auctions. Bidders Edge was an auction aggregator. Nonetheless, because of the fact that they were competing against eBay, the court found that what they were doing, in invading eBay's "property" was a violation of the trespass to chattel civil claim. And the court went on that theory to enjoin Bidders Edge from capturing and searching content on eBay. But you see a slight distinction between the Netscape case, where it was Netscape versus users, and where the court, even though the term of use contract was not enforceable, almost goes out of its way to find another theory to stop the competitor from hurting the owner of the data.

HAROLD FEDEROW: This is Harold. Just a sort of point on that and just a reminder that unfair methods of competition are illegal under both the Lanham Act and under many state acts, so this isn't as foreign as it might sound.

MARC LIEBERSTEIN: You're right, Harold. Joanne, do you want to take just 30 more seconds on *Veeck*?

JOANNE HENKLE: *Veeck* is actually a pretty simple one. This was a case where the Southern Building Code Congress had intentionally created model codes that it wanted municipal and state organizations to adopt with respect to building codes. Two towns down in Texas adopted it as their building code, and Mr. Veeck decided to put it up on the Web as the codes for those two particular towns. Southern Building Code Congress, when they couldn't find a copy of it, they actually took the copy from Southern Building Code Congress, so they actually had an agreement for the data that said they would not be posting it on the Web, but they did it anyway under the concept that this was actually [a] municipal code.

What the court found was very interesting. It found that the Southern Building Code Congress International had a copyrightable interest in the model code, but it did not have a copyrightable interest in municipal codes that adopted the model code word for word, so as soon as a municipality adopted the model code, the content of the model code could be put on the Web as that municipal's ordinance, and the copyright protection for SBCC was no longer there. This was distinguished from *Red Book*, where the state had adopted Red Book, because in this instance SBCC created the model code for the express purpose of having it adopted as ordinances, so the court did not feel like there was an illegal takings issue on this one.

MARC LIEBERSTEIN: Thanks. And next, this may be one of the more practical slides, as opposed to legal, and we're going to start getting into more practical discussions now. Harold and Joanne, we've discussed these various aspects of a license or a contract. We've all discussed the cases. Why don't we just sort of summarize where these terms fit?

JOANNE HENKLE: I think what terms you include have to depend on your industry and what makes sense both for you as a business and how you want to use your intellectual property and how your customers may want to use it; whether or not you offer things like warranties, for example. In the financial data industry, you don't find warranties. They all disclaim accuracy [and] timeliness, because the amount that a client pays for data is just a minute portion of what the client's overall holdings are. If the client has \$6 trillion in holdings, and you're making millions in profit, you can't possibly indemnify them for any loss based on a warranty claim.

MARC LIEBERSTEIN: Right, and I think as a licensee—and I think a large portion of the audience are licensees—obviously those types of warranties are not helpful to you. I think, as a licensee, you might really be wanting to focus on trying to make it as easy to use as possible, [with the] least amount of restrictions as possible. We've seen in these cases how these contracts restrict use almost to everything, except for what the limited allowed use that there is. And as a licensee, you obviously want to look at that. That's probably stating the obvious as well.

What about penalties? Joanne [or] Harold, have you guys seen liquidated damages clauses or things of that nature for violations of the contracts?

JOANNE HENKLE: I'll see liability caps, but I don't usually see liquidated damages.

HAROLD FEDEROW: Yes, I don't either. Sometimes if the data also looks like a trade secret, you might see some language about "Yes, this is irreparable harm" and you consent that they can go after an injunction, but liability caps are, I think, a lot more frequent.

MARC LIEBERSTEIN: What about arbitration versus court? Do you guys see more of a trend one way or the other for enforcement? That's on the injunction side.

JOANNE HENKLE: We typically try to avoid arbitration. We'd rather go to court.

HAROLD FEDEROW: This is Harold. Having had a bad experience or two with arbitration, I tend to try to avoid it, also. It doesn't mean you can, but that's my tendency.

MARC LIEBERSTEIN: I hope there's nobody affiliated with any ADR [alternative dispute resolution] associations or committees on the phone.

JOANNE HENKLE: I think what I would recommend is: The way I approach a license, whether I'm drafting it for a client agreement or whether I'm evaluating it because we're licensing property, is: I take a very functional approach. How do we want to use the licensed property? Can we use it the way we want to with the restrictions in there? If we can't, then I go back and have a very business-based conversation with the licensor to explain to them, "Here's how we want to use it [and] here's why," to see if we can find some sort of common ground where they have the protections that they need, but I can still get the uses I need. I think what you have to recognize is that usually both sides, especially in the commercial environment, have some commercial purposes they're trying to ultimately achieve by entering into the license. If you can focus more on the functionality as opposed to trying to put a bunch of legal jargon in there, I think you'll find your licenses are much easier to draft and easier to negotiate.

MARC LIEBERSTEIN: Good stuff, Joanne. Thank you.

HAROLD FEDEROW: I agree.

MARC LIEBERSTEIN: I couldn't agree more. Was there anything else that we wanted to cover about duration? Do you find that these licenses are usually—I imagine if it's factual content, it has a limited shelf life, no?

HAROLD FEDEROW: I don't know how Joanne does, but we're probably not very different. Ours tend to be updated fairly frequently. Our licenses—the ones we take—tend to be on the order of x days or x months to cancel, but good until then, but then there are updates provided for on some frequency that makes sense, depending on the data.

JOANNE HENKLE: I would say that that's fairly similar, although we actually have use for historical data when we're doing trend analysis for different financial purposes.

MARC LIEBERSTEIN: That was going to be my question.

JOANNE HENKLE: One of the businesses that I've worked with has done a lot of—provided, basically, 401(k) statements, where you show kind of the five-year performance, the 10-year performance, [and so on]. With that, you have to have the historical data and you have to keep it so that you can run the trend analysis.

What I'm also finding, though, is that the industry is rapidly changing. As technology is changing, the rights that we get and what we see in the licenses are changing, so we don't really see any static licenses at this point.

MARC LIEBERSTEIN: OK. Let's move onto some other measures concerning the protection of databases.

We mentioned the DMCA. I don't know the exact DMCA section off the top of my head—I should have collected it before—but there is a specific DMCA provision which prevents circumvention of encryption or passwords, and that is something that all database owners can put onto their—whatever their content, whatever their database is. If someone circumvents those, they can be liable under the DMCA for infringement.

Similarly with trade secret protection: Even though you're a database owner and even though you may be letting various numbers of customers use your information, should you have a contract with these customers which provides that they have to maintain the confidentiality of the information that they're getting from you, you should still be able to maintain the trade secret for that information. And if any one of them were to violate the trade secret or confidentiality provisions, you would be able to get temporary restraining orders [or] injunctive relief, again, to prevent the disclosure of the trade secret information.

One of the ways that you can somehow prove copyright infringement, or even some form of misappropriation, is by the placement of “seeds” into a database. The other word is “salting” a database. You see this many times in some of the financial cases where—and I mention one at the bottom, which is a pretty well-known case—where the database owner will intentionally put errors into their data, and that will enable them to see—if there is someone who republishes the data, if they see those same errors, they know that that person is accessing their information, more than likely without authorization.

The *FII* case was pretty much about that. Except the *FII*, even though—this is the *Financial v. Moody's* case—even though *FII* caught them—they caught them with their hand in the cookie jar. There was no question that Moody's Investor Services had taken the information from *FII*, but the problem was that the information that *FII* was compiling—the data—really was just a daily bond card. It had five simple facts of information on it. There was no real creativity in the way they selected or arranged the data that they put on these cards, and so therefore the court found that there was no copyright infringement.

JOANNE HENKLE: I think they may have actually remanded it back to see if there could be a potential—they clearly didn't think there was something copyrightable, and even if it were, they said that Moody's use was not going to be a fair use. What they found was that if the copyright action was upheld, then it would pre-empt the state action that was being brought. But if the copyright action was not upheld, then FII might still have a state claim that it could reassert. And so, under the concept of the other measures to protect databases, that might be the take-away, too, is that if your contract falls down and if your copyright falls down, you may still want to look around to see if you can find a state cause of action, because if there is no copyright or federal cause of action, your state claims aren't pre-empted, typically. Is that a fair assessment, Marc?

MARC LIEBERSTEIN: Yes. The state claim that was pre-empted, though, was that hot news claim. They did pre-empt that. They actually said that there was no hot news claim. But you're correct.

What's not on this particular slide is the trespass to chattel type of claim and the Computer Fraud Act. Those are two particular claims that could also be brought, which we discussed from the earlier cases.

Next, this depends upon—I guess one of the polling questions could have been: Are you a multinational corporation or are you just local in the U.S.? If you are, in fact, a multinational corporation, you should know that in the E.U. things are a little bit different.

In addition to having copyright protection, you also have a *sui generis* right to your database. In other words, if you create it and you have it as a singular body of work, it is protectable regardless of whether it's copyrightable. So, you should be aware of that going forward. The United States has tried several times to introduce legislation to sort of mimic what's going on in the E.U., but, to date, there has been no success in passing any sort of legislation to do that on behalf of databases.

Joanne or Harold, do you have any more to comment on that?

JOANNE HENKLE: No. Although I do notice that our time is getting short, so if people do have questions, if you could start sending those in, we will take some questions at the end, if there's time.

MARC LIEBERSTEIN: The next slide: We mentioned hot news a couple of times. Hot news really applies to data which is somewhat timely in nature. It started with the *International News Service* case, where the court recognized an exception to the copyright law for the misappropriation of factual news content under the guise that it was being stolen, literally, by someone on the West Coast.

Interestingly, and more recently, the hot news claim was discussed, but not necessarily ruled upon, by the Second Circuit in the *National Basketball Association* case versus Motorola, and the Second Circuit laid out five factors for approving a hot news claim, but nevertheless did not decide whether there was one in that case.

I just recently did another program on hot news in light of the *A.P. v. All Headline News* case, where the All Headline News was taking the headlines from the A.P. [Associated Press] and republishing them. The question becomes whether—that case settled, so no one knows. But in surveying all the hot news cases, I can tell you that we did not find a single case where someone actually prevailed on a hot news claim. If anyone in the audience knows of a case, I'd love to see it. We found several cases which said and recognized that a hot news claim can exist. Even Nimmer acknowledges that the hot news claim may exist. But we could not find a single case where a hot news claim actually prevailed in a court. But it is out there. You should be aware of it. If your database or your content that you're licensing falls into these five factors—which have pretty much become the factors that govern—you should be aware that you might have a hot news claim either asserted against you or one that you can assert.

Do you guys want to do the search engine thing, or do you want to go right to one of the scenarios? Do you want to do Situation 1?

JOANNE HENKLE: I was actually just going to check and see if we had any questions first before we go onto scenarios. I guess we don't. OK.

We wanted to give people a few hypotheticals that we could run through and kind of talk through just to apply some of this analysis to some situations that may come up.

We've got our first situation up on the board here. Harold and I are competing in the market for Wall Street and trading-oriented, real-time financial information. We both run subscriber-based audio and Web-based feeds. Harold is alleging that I systematically am assessing and copying his news feed. I admitted it. I take short factual phrases and snippets from Harold's publication and republish that information on my feed. I'm able to republish within 10 or 15 seconds after Harold's publication. So, Harold, what do you think?

HAROLD FEDEROW: I think you're stealing from me. I think that my ability to make money depends on my getting my publication out to customers very fast. It's expensive to gather the data, and I want an injunction.

JOANNE HENKLE: Well, it doesn't say here that I have a contract with you, and I would say this is all factual information. In fact, it says that it is factual information. And if I'm only taking small snippets of it, even if it were copyrighted, that could potentially be a fair use. I would say, since there is a little bit of a delay here of 10 or 15 seconds, I would argue that, in fact, you don't have a claim unless you have a contract with me.

HAROLD FEDEROW: At that point, I would have a chat with my outside counsel.

MARC LIEBERSTEIN: You should all know that this situation actually came up in real life. I was actually counsel for the defendant in this case. We settled, but it was a very, very tough situation; a very tough case. I'll be honest—I can't repeat anything that was actually advised upon—but one of the things that I always thought about in this type of situation was: Maybe what was going on was OK, if you just look at the facts here. But I always wondered: Where did my guy get his information from? How did he get it? If the plaintiff had ever pursued or investigated how my guy actually got access to this information—because my client wasn't necessarily a subscriber—so did another subscriber give it to him? Would that subscriber be in violation of their subscription agreement? These are the kinds of things, as a litigator, or a strategist, you may want to consider when you're considering bringing action or whether you're being alleged, because how you're getting the information is probably 90 percent of the fight, because that is what the courts are really focusing on: the evilness of the deed, so to speak.

JOANNE HENKLE: So if Harold wanted to protect things in this case, if he had his audio and Web-based feed being a password-protected feed, so that he could better raise that claim and [ask], "Hey Joanne how in the heck are you getting my information?"

MARC LIEBERSTEIN: Circumvention under the DMCA would be almost a really—if you can prove it, and it might be very easy to prove if you dug into it. Obviously, there's a question of cost and reward. If you're dealing with a real shyster who's the defendant, it may not be worth spending the money to do the investigation.

HAROLD FEDEROW: Some of this is pretty technically easy if you have your set-up right because you'll track who is logging in and out.

MARC LIEBERSTEIN: That's a good point, Harold. And I wonder how many database owners really take the time to really put in those types of controls and systems. Do you have any view on that? I don't know the answer to that, but you would think that, in this day and age, tracking what comes in and goes out and from where and to who would be somewhat simple.

HAROLD FEDEROW: It is very simple. It's just whether it's implemented or not. Again, this is somewhat outside the field, but it could raise internal control issues if you're a public company and report and subject to [the] Sarbanes-Oxley [Act]. You could wind up with some issues about internal controls if you don't actually know who's dealing with your data.

JOANNE HENKLE: You may also want to look at how you're creating your revenue. If your revenue is by subscription, then it may be worth it to you to have the cookies or some software download that you have to plug in. On the other hand, if your revenues are all coming through advertising that you're selling, because the advertisers can reach your huge subscription base, then it may not be as big an issue to you.

MARC LIEBERSTEIN: Very good point. Let's go on to the next situation. I think we have two or three minutes. This one is slightly different than our first situation. It's me against The Kingdom, and The Kingdom publishes a monthly business index survey called *The Business Barometer*. The index is created by The Kingdom. They take the time to survey businesses in the metropolitan area, and so they create their content, unlike Harold, who didn't really create content; he was more of a news gatherer. *The Business Barometer* is published monthly on the last business day of each month to Kingdom's paying subscribers, and there's sort of an embargo period where it's not released to the public for at least three minutes. I access and publish parts of *The Business Barometer* and publish it over my feed during the embargo period. Joanne [and] Harold, what do you think?

HAROLD FEDEROW: I think the first thing I would look at is: What did you agree to, to access *The Business Barometer*? What do they have in there? What does The Kingdom have as license agreements [and] contractual provisions? Because I would bet you're probably breaching them.

JOANNE HENKLE: I would also want to know what's generating that embargo period, because if it's something like SEC regulations, where they actually do have some requirements, for insider trading and market timing, that certain information should go out to everybody at about the same time, you might have some other claims in addition to if you have a contract in place. I would say—since you're the creator of the content, I would say you definitely have copyright infringement issues here.

MARC LIEBERSTEIN: Right. Here the little fact that sort of makes that questionable is: How much am I taking? Am I taking a lot? Am I taking parts? Are the parts I'm taking substantial or are they just *de minimis*? What type of part am I taking? Is it factual or is it something creative? Am I taking the organization or am I just taking a number? So, all those questions come into play, and as the cases bear out, it really does depend on how much of each that I've done.

We promised you, in the description of this thing, a little discussion about the fantasy league cases. And I basically laid out the facts of the more recent fantasy league cases, and I think it's a good thing to end on because these cases took place in 2007 and 2009.

In both cases, which—I'll go to the next one—you have Major League Baseball and the National Football League trying to stop former licensees from using names, statistics, and other factual information about players in the various leagues to support their fantasy league operations. The Eighth Circuit came down in the *C.B.C.* case and pretty much said—they recognized that there was a right of publicity to the players. They didn't deny that, even though the District Court questioned that. They recognized that the identities of the players were used, but they found that the First Amendment trumped that, and they found that they had to balance the First Amendment against the right of publicity or this commercial type of speech. Really what they focused on was the fact that all of this player information—their

names, their statistics—was basically available everywhere, what was really the difference between ESPN using the names and data and statistics and getting money for doing a broadcast on the sporting events versus a fantasy league which was using names and statistics to support a fantasy league? They just didn't see how this type of factual information or commercial speech somehow should be prevented by someone's right of publicity, which they felt they had but was not violated.

What is interesting and maybe somewhat scary is that they acknowledged that there was a contract. At least in the *C.B. C.* case, the contracts expressly said that they could not use nor challenge the validity of the rights that were being granted while they were a licensee. What the Eighth Circuit came down and said was that: "Well, guess what? Since we found that there was no right to begin with to license, that Major League Baseball breached its warranty to the former licensee, and therefore the contract was not enforceable."

I find that a little bit circular and a little bit scary, but that's the way that the Eighth Circuit found. I have a sneaking suspicion, in reading both cases, that the courts are more interested in keeping capitalism alive as opposed to recognizing the right of publicity in such a situation. Those two cases are really the most recent on database type of protection.

[The CLE code and instructions provided here were for use only by attendees of the live webcast. To obtain your CLE certificate for this archived webcast when you have finished listening to it, click the EXIT COURSE button at the top right of the screen to return to your My Courses page and then click the certificate link or icon beneath the course listing. In the pop-up window, select the desired jurisdiction from the drop-down list and enter any requested data, such as your bar number and the CLE code that popped up while you were playing the archived webcast. (This code is required for New York and Ohio attorneys only.)]

MARC LIEBERSTEIN: OK. We would like to thank the audience for attending. We hope you got something out of it and we put up a slide here. If any of you have questions or follow-up comments, feel free to e-mail anyone of us. Harold, Joanne, it's been a pleasure. Leslie, thank you.

JOANNE HENKLE: Thanks, everybody. Have a good day.

© 2009 SmartPros® Legal & Ethics, Ltd. All rights reserved.