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## What's All the Fuss about Feist? The Sky Is Not Falling on the Intellectual Property Rights of Online Database Proprietors

### Cover Page Footnote

The authors wish to thank Sandra Johnson for her valuable assistance in the preparation of this article.

# WHAT'S ALL THE FUSS ABOUT *FEIST*? THE SKY IS NOT FALLING ON THE INTELLECTUAL PROPERTY RIGHTS OF ONLINE DATABASE PROPRIETORS\*

Paul T. Sheils\*\* and Robert Penchina\*\*\*

## I. INTRODUCTION

Ever since Justice Sandra Day O'Connor opined that the white pages of Rural Telephone Service Company's phone directories were "devoid of even the slightest trace of creativity,"<sup>1</sup> commentators have claimed<sup>2</sup> that the sky is falling on the intellectual property rights of proprietors of online databases.<sup>3</sup> One author warned proprietors of online databases that the United States Supreme Court's decision in *Feist Publications, Inc. v. Rural Telephone Service Co.*<sup>4</sup>

may have set the stage for a veritable "gold rush" of information reorganization, reconstruction and redistribution by persons other than those who have collected and compiled the information in the first instance . . . [and] may result in the creation of an "information aftermarket" in which the information in lawfully acquired compilations is reworked and sold by the acquirers to third parties.<sup>5</sup>

This article asserts that the sky has not fallen on the intellectual property rights of proprietors of online databases. We will show that reports of the demise of copyright protection for online databases are

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\* This article reflects the views of the authors and does not necessarily reflect the views of Dow Jones & Company, Inc. or Rogers & Wells. The authors wish to thank Sandra Johnson for her valuable assistance in the preparation of this article.

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1. *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 111 S. Ct. 1282, 1296 (interim ed. 1991).

2. See, e.g., Henry Beck, *Copyright Protection for Compilations and Databases After Feist*, 8 *COMPUTER LAWYER* 1, 2 (1991); *Supreme Court Copyright Ruling Could Mean Trouble for Exchanges, Data Vendors*, *INSIDE MARKET DATA*, April 15, 1991, at 7; Wade Lambert, *Yellow Pages Reuse Is Found Not to Violate Copyright*, *THE WALL STREET JOURNAL*, September 24, 1991, at B1; Baila H. Celedonia, *'Feist v. Rural Telephone': Is the Sky Falling For Directory Publishers?*, *N.Y.L.J.*, April 12, 1991, at 1.

3. For purposes of this article, an "online database" means an electronic information database accessible by licensed subscribers via public or dedicated telecommunications networks using a remote personal computer equipped with a modem.

4. 111 S. Ct. 1282.

5. Beck, *supra* note 2, at 2.

greatly exaggerated, that properly drafted license agreements for online database services provide proprietors with enforceable remedies against unauthorized copying of database contents, and that causes of action sounding in misappropriation and unfair competition will continue to be effective weapons against "information aftermarket" speculators.

## II. COPYRIGHT PROTECTION FOR ONLINE DATABASES AFTER *Feist*

### A. *The Facts of Feist*

Feist Publications, Inc. ("Feist") publishes consolidated, "area-wide" telephone directories. Unlike the white pages published by the regulated local phone companies, Feist's consolidated directories cover multiple telephone service areas spanning several counties. To obtain the listings for its directory covering some fifteen counties in northwest Kansas, Feist offered to license the lists from each of the eleven telephone companies located in the territory to be covered by its consolidated directory. Ten of the eleven companies approached by Feist agreed to license their lists to Feist; only one company, Rural Telephone Service Company ("Rural"), refused. Realizing that omitting Rural's lists would leave a gaping hole in its directory, Feist decided to use Rural's lists without its consent. After discarding several thousand of Rural's listings that fell outside of the area to be served by Feist's consolidated directory, Feist hired workers to confirm the accuracy of the approximately 5,000 listings that remained. As a result of this effort, Feist's published directory included over 1,300 listings that were identical to listings in Rural's directory, including four fictitious listings that Rural had planted to detect copying. Rural sued Feist for copyright infringement on March 23, 1983. Eight years and three courts later, Justice O'Connor, writing for a unanimous Supreme Court, held that "[b]ecause Rural's white pages lack the requisite originality, Feist's use of the listings cannot constitute [copyright] infringement."<sup>6</sup>

To reach this conclusion, the Court was required to resolve the tension between the basic principles that "facts are not copyrightable . . . [but] compilations of facts generally are."<sup>7</sup> The Court explained the "seemingly disparate treatment of facts and factual compilations" by resorting to the "constitutionally mandated" requirement that a work be original to its author in order to qualify for copyright protection.<sup>8</sup> Facts "do not owe their origin to an act of authorship," but are merely "discovered";<sup>9</sup> thus "[i]n no event may copyright extend to the

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6. 111 S. Ct. at 1297.

7. *Id.* at 1287.

8. *Id.* at 1288.

facts themselves."<sup>10</sup> In reaching this conclusion, the Court rejected what had come to be known as the "sweat of the brow" doctrine.<sup>11</sup> Under this doctrine, "copyright was a reward for the hard work that went into compiling facts";<sup>12</sup> the copyright in a factual work served to preclude a second author from utilizing facts compiled by the first author unless the second author independently derived the same facts.<sup>13</sup>

In contrast to its treatment of "raw facts," the Court confirmed that "[a] factual compilation is eligible for copyright [protection] if it features an original selection or arrangement of facts."<sup>14</sup> The Court stressed that it is only "the particular selection or arrangement," however, and not the underlying facts, that is protected by copyright.<sup>15</sup>

Not all selections or arrangements of facts qualify for copyright protection. Rather, "the facts must be selected, coordinated, or arranged 'in such way' as to render the work as a whole *original*."<sup>16</sup> The originality requirement, however, "is not particularly stringent":<sup>17</sup>

A compiler may settle upon a selection or arrangement that others have used; novelty is not required. Originality requires only that the author make the selection or arrangement independently (i.e., without copying that selection or arrangement from another work), and that it display some minimal level of creativity. *Presumably, the vast majority of compilations will pass this test . . .*<sup>18</sup>

Applying this test to white pages listings, the Court held that neither the selection nor the arrangement of the compiled facts was

10. *Id.* at 1290.

11. *Id.* at 1291-92.

12. *Id.* at 1291.

13. *See, e.g.,* Illinois Bell Tel. Co. v. Haines & Co., 905 F.2d 1081, 1086 (7th Cir. 1990), *vacated* following *Feist*, 111 S. Ct. 1408 (1991). The holding of *Feist* appears to break little new ground in that the majority of circuits previously had rejected the "sweat of the brow" doctrine. Nevertheless, *Feist* may present an opportunity for lower courts to reevaluate the protections afforded to factual works. An example of this is the Eleventh Circuit's use of *Feist* in *Cable News Network, Inc. v. Video Monitoring Servs. of Am., Inc.*, 940 F.2d 1471 (11th Cir. 1991) ("*CNN*"). *CNN*, which considered whether an injunction barring the copying of any present or future *CNN* broadcast was an appropriate remedy for the claimed infringement of a single 30-minute broadcast segment, arguably did not implicate *Feist*. Nonetheless, the Eleventh Circuit, among other things, noted that "[a]fter *Feist*, it cannot be assumed that every newscast would qualify for even compilation copyright status. Indeed *Feist* places such a conclusion in serious doubt." *Id.* at 1485 n.23. This dicta, however, finds no support in *Feist*. In view of the reasonable application other courts have made of *Feist*, *CNN* stands out as a single, badly reasoned case rather than as a harbinger of other courts' treatment of *Feist*. *See* Brief of Amici Curiae in Support of Appellee's Petition for Rehearing at 11-12, *Cable News Network, Inc. v. Video Monitoring Servs. of Am., Inc.*, 940 F.2d 1471 (11th Cir. 1991) (No. 90-8798).

14. *Feist*, 111 S. Ct. at 1290.

15. *Id.*

16. *Id.* at 1294 (emphasis added).

17. *Id.*

18. *Id.* (emphasis added).

sufficiently original to merit copyright protection. The Court observed that the compiler/telephone company “simply takes the data provided by its subscribers and lists it alphabetically.”<sup>19</sup> No original selection took place because only “the most basic information—name, town, and telephone number—about *each* person who applies to it for telephone service” is compiled.<sup>20</sup> The Court also noted that the compiled facts may not have been “selected,” but rather, dictated by state law.<sup>21</sup> Moreover, the Court found that the arrangement of these facts—merely listing subscribers in alphabetical order—was an “age-old practice . . . that utterly lacks originality.”<sup>22</sup> Accordingly, Rural’s white pages listings were not entitled to copyright protection.

### B. Copyrightability of Factual Compilations After *Feist*

Consistent with *Feist*’s advice that it is only “a narrow category of works in which the creative spark is utterly lacking,”<sup>23</sup> four of the five post-*Feist* cases which have addressed factual compilations have found the compilation at issue to be copyrightable. In *Bellsouth Advertising & Publishing Corp. v. Donnelley Information Publishing, Inc.*,<sup>24</sup> the Eleventh Circuit held that a yellow pages directory was “sufficiently distinct from the ‘white pages’ phone directory involved in *Feist* to meet the minimal level of independent creativity required to qualify as original.”<sup>25</sup> The Eleventh Circuit found that the yellow pages compiler “performed several acts of selection[,] . . . [including] select[ing] and demark[ing] the geographic boundaries that correspond to the scope of each directory; . . . select[ing] a directory close date on which no more listing modifications would be reflected; . . . [and] creat[ing] or select[ing] numerous business classifications.”<sup>26</sup> In addition, the court noted that the various listings were coordinated and arranged “according to various categories.”<sup>27</sup> The Eleventh Circuit found these seemingly uninspired acts of selection and arrangement to satisfy the requirement of originality as defined by *Feist*.

Similarly, in *Key Publications, Inc. v. Chinatown Today Publishing Enterprises, Inc.*,<sup>28</sup> the Second Circuit found yellow pages directory listings to evince sufficient original selection and arrangement to war-

19. *Id.* at 1296.

20. *Id.* (emphasis added).

21. *Id.* at 1296-97 (Rural was required to publish the white pages pursuant to state law).

22. *Id.* at 1297.

23. *Id.* at 1294.

24. 933 F.2d 952 (11th Cir. 1991).

25. *Id.* at 958.

26. *Id.* at 957.

27. *Id.* at 958.

rant copyright protection. The Second Circuit explained that “[s]election implies the exercise of judgment in choosing which facts from a given body . . . to include in a compilation.”<sup>29</sup> The court held that the compiler’s selection of listings was original because the compiler “had to select from a multitude of businesses in New York and elsewhere those of the greatest interest to her audience.”<sup>30</sup> The court further found that the arrangement of the listings was original because it involved “creativity on the part of [the compiler] in deciding which categories to include and under what name.”<sup>31</sup>

In *Kregos v. The Associated Press*,<sup>32</sup> the Second Circuit evaluated a “baseball pitching form” which listed nine items of information concerning a pitcher’s past performance. The district court had granted summary judgment dismissing the compiler’s copyright infringement claim on the ground that the form was insufficiently original.<sup>33</sup> The Second Circuit noted that “there are at least scores of available statistics about pitching performance . . . and therefore thousands of combinations of data that a selector can choose to include in a pitching form.”<sup>34</sup> The Second Circuit stated that “[i]t cannot be said as a matter of law that in selecting the nine items for his pitching form out of the universe of available data, [the compiler] has failed to display enough selectivity to satisfy the requirement of originality.”<sup>35</sup> The court remanded the case for trial. It is noteworthy that while the court found that the selection of facts could support a copyright, it found that the arrangement of the statistics in columns lacked the requisite creativity.<sup>36</sup> Thus, *Kregos* confirmed that *either* an original selection or arrangement of facts may support a copyright.

Finally, in *United States Payphone, Inc. v. Executives Unlimited of Durham, Inc.*,<sup>37</sup> the Fourth Circuit found that a guide which listed various state tariffs applicable to the payphone industry in a “single-page-per-state format” was a “sufficiently subjective and original” selection and arrangement to qualify for copyright protection.<sup>38</sup> This decision was based, in large part, on the Fourth Circuit’s understanding that the guide “could have been organized in many different ways.”<sup>39</sup>

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29. *Id.* at 1124.

30. *Id.* at 1125.

31. *Id.*

32. 937 F.2d 700 (2d Cir. 1991).

33. *Id.* at 702.

34. *Id.* at 704.

35. *Id.*

36. *Id.* at 709.

37. 18 U.S.P.Q.2d (BNA) 2049 (4th Cir. 1991).

38. *Id.* at 2050.

*Victor Lalli Enterprises, Inc. v. Big Red Apple, Inc.*,<sup>40</sup> is the only post-*Feist* case located as of this writing in which a factual work was held to lack the originality required to qualify for copyright protection as a compilation. At issue were "lucky number for the day" charts used in connection with gambling.<sup>41</sup> Each day's number was derived from published racetrack statistics pursuant to a set formula.<sup>42</sup> The compilation for which protection was sought consisted of a chart which displayed the numbers "for periods of thirteen months, showing the months of the year in a row across the top of the chart and the numbers 1 to 31 in a vertical column to indicate the day of the month."<sup>43</sup> Numerous competing compilers published identical charts. The Second Circuit found that the chart was "arrange[d] . . . according to 'purely functional grids that offer no opportunity for variation.'"<sup>44</sup> Moreover, the Second Circuit found that because the "format of the chart is a convention . . . [the compiler] exercise[d] neither selectivity in what he reports nor creativity in how he reports it."<sup>45</sup> Accordingly, the court found that charts were not entitled to copyright protection.

### C. *Infringement of Factual Compilations*

Although *Feist* admonished that "copyright in a factual compilation is thin,"<sup>46</sup> only one of the four post-*Feist* cases which dealt with a copyrightable compilation has found that the compilation was *not* infringed.<sup>47</sup> Two post-*Feist* cases found that factual compilations were, in fact, infringed.<sup>48</sup> The fourth case was remanded for trial.<sup>49</sup>

In *Bellsouth Advertising*, the Eleventh Circuit found that a yellow page directory, and the intermediate steps taken in preparation of that directory, infringed the copyright in a prior directory.<sup>50</sup> The second publisher had obtained a copy of the first directory and "key[ed] into a computer database the name, address, telephone number, the classified heading code, the advertising code and the directory code for every

40. 936 F.2d 671 (2d Cir. 1991).

41. *Id.* at 672.

42. *Id.*

43. *Id.*

44. *Id.* at 673.

45. *Id.*

46. *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 111 S. Ct. 1282, 1289 (interim ed. 1991).

47. *See Key Publications, Inc. v. Chinatown Today Publishing Enters., Inc.*, 20 U.S.P.Q.2d (BNA) 1122 (2d Cir. 1991).

48. *See Bellsouth Advertising & Publishing Corp. v. Donnelley Info. Publishing, Inc.*, 933 F.2d 952 (11th Cir. 1991); *United States Payphone, Inc. v. Executives Unlimited of Durham, Inc.*, 18 U.S.P.Q.2d (BNA) 2049 (4th Cir. 1991).

49. *See Kregos v. The Associated Press*, 937 F.2d 700 (2d Cir. 1991).



business listing" in the first directory.<sup>51</sup> The various codes which were keyed in enabled the second publisher to reconstruct the first directory. The Eleventh Circuit acknowledged that the second publisher was entitled to utilize the information which it could have extracted from the first directory. By copying the directory, however, the second publisher also appropriated the "inherent organizational elements" embodied in the first directory and thereby infringed the copyright in that directory.<sup>52</sup>

In contrast, the Second Circuit found that a subsequent publisher's utilization of a prior yellow page directory did not constitute copyright infringement.<sup>53</sup> The court found that the "key issue" in determining whether an infringement had occurred was "whether the organizing principle guiding the selection of businesses for the two publications is in fact substantially similar."<sup>54</sup> Because the first directory was organized into over 260 categories and the second organized into 28 categories, only 3 of which duplicated categories in the first directory, the Second Circuit found that the "organizing principles of the two directories [were] not substantially similar."<sup>55</sup> Thus, even though the second publication "may have copied the names and addresses it selected" from the prior directory, the copyright in the prior directory was not infringed.<sup>56</sup>

The different outcomes in *Bellsouth Advertising* and *Key Publications* may be reconciled by noting that the second compiler in *Key Publications* never actually copied the *directory* upon which she relied as a source of information, but merely copied the *information*. In contrast, the second compiler in *Bellsouth Advertising* did copy the entire prior work. This difference is significant in that the actual copying of a compilation, *even if done as an intermediate step to facilitate the use of information*, of necessity duplicates the protected selection and arrangement of the compilation as well as the unprotected facts which are embodied therein.<sup>57</sup> Reading these cases together, it appears that copyright law alone does not prohibit users of online databases from

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51. *Id.*

52. *Id.* at 956. *See also United States Payphone*, 18 U.S.P.Q.2d (BNA) at 2051 (subsequent compiler's copying of pages containing state tariffs constituted an infringement even though compiler was free to use information contained in prior work).

53. *Key Publications, Inc. v. Chinatown Today Publishing Enters., Inc.* 20 U.S.P.Q.2d (BNA) 1122, 1124 (2d Cir. 1991).

54. *Id.*

55. *Id.*

56. *Id.*

57. *See Telerate Sys., Inc. v. Caro*, 689 F. Supp. 221, 228 (S.D.N.Y. 1988) (software program which enabled user to analyze information compiled in database infringed copyright because "[t]he data . . . must be copied by the program to analyze it.").

freely utilizing the raw factual data gleaned from a computer screen, as long as the resulting use does not incorporate the selection and arrangement employed by the database proprietor.<sup>58</sup> Downloading a database, however, creates a copy which embodies both the unprotected facts in, and the protected arrangement and selection of, the database.<sup>59</sup> Accordingly, even after *Feist*, the unauthorized downloading of a database would appear to infringe the copyright in that database.

Indeed, the highly influential National Commission on New Technological Uses of Copyrighted Works ("CONTU") has also concluded that unauthorized copying of substantial portions of an online database would constitute a copyright infringement.<sup>60</sup> In its Final Report to President Carter and Congress on July 31, 1978, after over two years of studying how copyrights could be extended to new technologies, including online databases, CONTU specifically addressed the issue of copyrightability of online databases:

There is little doubt that one who obtained access to a copyrighted data base by normal commercial methods—paying the proprietor or the proprietor's authorized agent for the right to search the data base and retrieve from it information or data responsive to the search request—would infringe an existing copyright by retrieving the entire data base and marketing an exact duplicate in competition with the copyright proprietor. Such activity beyond question would be unauthorized copying in violation of a valid copyright. . . .

. . . [C]opyright in a dynamic data base protects no individual datum, but only the systematized form in which the data are presented.

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58. This is not to say, however, that database license agreements and tort based theories of misappropriation and unfair competition cannot prohibit such unfettered use of factual data. See discussion *infra* Parts III and IV.

59. See, e.g., *Bellsouth Advertising & Publishing Corp. v. Donnelly Info. Publishing, Inc.* 933 F.2d 952, 958 (11th Cir. 1991) (entering a work into a computer and storing to tape creates a copy of the work); *Stern Elecs., Inc. v. Kaufman*, 669 F.2d 852, 855 (2d Cir. 1982) (placing work in "memory devices" of computer "satisf[ies] the statutory requirement of a 'copy' in which the work is 'fixed.'"); 2 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 8.08 at 8-104.1 (1991). It is "clear that the input of a work into a computer results in the making of a copy, and hence that such unauthorized input infringes the copyright owner's reproduction right." *Id.*

60. In 1974, Congress established CONTU to, among other things, study and report on issues concerning copyright protection for works used in conjunction with computers. See 2 U.S.C. § 201-208 (1988). CONTU delivered its Final Report on July 31, 1978. See Final Report of the National Commission on New Technological Uses of Copyrighted Works ("CONTU Final Report"). Congress responded to the CONTU Final Report by enacting the 1980 Computer Software Copyright Act which amended sections of the Copyright Act of 1976. 17 U.S.C. §§ 101, 117 (1988). "Because Congress adopted the recommendations of the majority of CONTU virtually unchanged, courts look to the CONTU final report as the legislative history of provisions recommended by CONTU." *Allen-Myland, Inc. v. International Business Machines Corp.*, 746 F.

The use of one item retrieved from such a work—be it an address, a chemical formula, or a citation to an article—would not under reasonable circumstances merit the attention of the copyright proprietor. Nor would it conceivably constitute infringement of copyright. The retrieval and reduplication of any substantial portion of a data base, whether or not the individual data are in the public domain, would likely constitute a duplication of the copyrighted element of a data base and would be an infringement. In any event, the issue of how much is enough to constitute a copyright violation would likely entail analysis on a case-by-case basis with considerations of fair use bearing on whether the unauthorized copying of a limited portion of a data base would be held noninfringing. Fair use should have very limited force when an unauthorized copy of a data base is made for primarily commercial use. . . .

It appears that adequate legal protection for proprietary rights in extracts from data bases exists under traditional copyright principles as expressed in the new law, supplemented by still-available relief under common-law principles of unfair competition. *The unauthorized taking of substantial segments of a copyrighted data base should be considered infringing*, consistent with the case law developed from infringement of copyright in various forms of directories. In addition, common-law principles of misappropriation which, according to the legislative reports accompanying the new law, are not preempted with regard to computer data bases are available to enforce proprietary rights in these works.<sup>61</sup>

Thus, contrary to reports of its demise, copyright remains a vibrant source of protection for proprietors of online databases. *Feist* should not be read to declare open hunting season on online databases; infringers should proceed at their peril.

### III. CONTRACTUAL PROTECTION OF ONLINE DATABASES

*Feist* placed no limitations whatsoever on a database proprietor's ability to protect information contractually. The thrust of *Feist* is that "copyright is not a tool by which a compilation author may keep others from using the facts or data he or she has collected."<sup>62</sup> Indeed, *Feist* strongly suggests that other branches of the law may provide such a tool.<sup>63</sup>

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61. CONTU Final Report at 41-42 (emphasis added) (footnotes omitted). See discussion of misappropriation and unfair competition *infra* Part IV.

62. *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 111 S. Ct. 1282, 1295 (interim ed. 1991) (emphasis added).

63. *Id.* at 1292 (stating that protection may be available "under a theory of unfair competition").  
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### A. License Agreements for Online Databases

None of the major online database services<sup>64</sup> relies exclusively on copyright to restrict use of the information in its database. Instead, each provides access to its database only pursuant to some form of written license agreement.<sup>65</sup> These license agreements explicitly or implicitly grant licensees (sometimes called "users," "members," or "subscribers") a limited license to access the information contained in the database under the express terms and conditions of the license agreement. The license agreements typically contain provisions which specify that the licensor retains title to the information contained in the database; restrict the use of the information, *including prohibitions on the copying, redistribution and republication of the information*; and disclaim warranties and limit liabilities of the licensor resulting from errors and omissions in the information or from delays or interruptions in its delivery.<sup>66</sup>

Typically, these license agreements are non-negotiable, pre-printed forms offered to potential licensees on a "take it or leave it" basis, and, as such, are "contracts of adhesion" under classical contract analysis.<sup>67</sup>

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64. Some of the major online databases include *CompuServe*, a service of CompuServe, Inc.; *DataTimes*, a service of DataTimes Corporation; *DIALOG*, a service of Knight-Ridder, Inc.; *Dow Jones News/Retrieval*, a service of Dow Jones & Company, Inc.; *GENie*, a service of GE Information Services; *Lexis/Nexis*, a service of Mead Data Central, Inc.; *Prodigy*, a service of Prodigy Services Company; and *WESTLAW*, a service of West Publishing Co.

65. See, e.g., Prodigy Service Member Agreement, DIALOG Standard Service Agreement and LEXIS/NEXIS Subscription Agreement, *reprinted in* P. MARX, *CONTRACTS IN THE INFORMATION INDUSTRY* II 125, 181, 205 (1990).

66. See, e.g., LEXIS/NEXIS Subscription Agreement 1.2, MARX, *supra* note 65, at 205 ("All right, title and interest in the Services [electronic information services of Mead Data Central (MDC) and third parties] and the materials included therein belong to MDC, except to the extent that third parties whose materials are made available in the Services possess copyright or proprietary interests in such materials."); CompuServe Information Service Operating Rules ("The copying, reproduction, or publication of any part of the Service is prohibited, unless expressly authorized by CompuServe."); DIALOG Standard Service Agreement P 9, *reprinted in* MARX, *supra* note 65, at 185. "DIALOG AND ITS SUPPLIERS MAKE NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, INCLUDING BUT NOT LIMITED TO THE WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE OR MERCHANTABILITY, NOR ARE ANY SUCH WARRANTIES TO BE IMPLIED WITH RESPECT TO THE DATA OR DATA SERVICES FURNISHED. DIALOG AND ITS SUPPLIERS ASSUME NO RESPONSIBILITY WITH RESPECT TO THE CUSTOMER OR ITS EMPLOYEES, CLIENTS OR CUSTOMERS USE THEREOF. DIALOG AND ITS SUPPLIERS SHALL NOT BE LIABLE FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES, EVEN IF ADVISED OF THE POSSIBILITY THEREOF, NOR SHALL THEY BE LIABLE FOR EXEMPLARY OR 'LOST PROFITS.' IN NO EVENT SHALL DIALOG OR ITS SUPPLIERS LIABILITY TO CUSTOMER FOR DAMAGES, REGARDLESS OF CAUSE OR FORM OF ACTION EXCEED THE VALUE OF THE ORDER FOR ONE (1) YEAR PRECEDING THE INCIDENT GIVING RISE TO SUCH DAMAGES." *Id.*

67. An adhesion contract "is a handy shorthand descriptive of standard form printed contracts prepared by one party and submitted to the other on a 'take it or leave it' basis." Standard

Certain of the highly specialized online databases<sup>68</sup> require potential licensees to sign and return the license agreement before they are given passwords or other means of accessing the database. On the other hand, the license agreements of most of the large consumer-oriented database suppliers are not signed.<sup>69</sup> Instead, they purport to bind licensees by action, not signature: conspicuous bold-faced notices warn potential licensees that accessing the database indicates acceptance by the licensee of the terms and conditions in the license agreement.<sup>70</sup> In this way, these "bound-by-use" license agreements are (albeit with some very important differences) the online database equivalent of "shrink-wrap licenses" that accompany mass-marketed computer software programs.<sup>71</sup>

### 1. Contracts of Adhesion

"[C]ontracts of adhesion, like negotiated contracts, are prima facie enforceable as written."<sup>72</sup> Indeed, "finding a contract to be of adhe-

*Oil Co. v. Perkins*, 347 F.2d 379, 383 n.5 (9th Cir. 1965). "A contract which is a mass standardized form is always a contract of adhesion, because it cannot be negotiated about." 3 ARTHUR L. CORBIN, 3 CORBIN ON CONTRACTS § 559C, at 335 (1991). For a seven-part definition of "adhesion contracts" see Todd D. Rakoff, *Contracts of Adhesion: An Essay in Reconstruction*, 96 HARV. L. REV. 1173, 1177 (1983). In many instances, however, online database license agreements are subject to extensive, even spirited, negotiation by the parties. Under these circumstances, the agreement would not be an adhesion contract, and its terms would be subject to traditional principles of contract construction.

68. See, e.g., DIALOG Standard Service Agreement, MARX, *supra* note 65, at 182; Duns' Marketing Service, Inc. Services Agreement, MARX, *supra* note 65, at 153; LEXIS/NEXIS Subscription Agreement, MARX, *supra* note 65, at 205.

69. Neither *CompuServe*, *Dow Jones News/Retrieval*, *GENie* nor *Prodigy* require the licensee to sign and return a copy of the license agreement. *CompuServe*, *GENie* and *Prodigy*, however, all have some form of online "electronic acceptance" of their license agreements. See *infra* note 70.

70. The *Dow Jones News/Retrieval* User Agreement states: "READ THIS USER AGREEMENT BEFORE USING DOW JONES NEWS/RETRIEVAL (the "SERVICE"). BY USING THE SERVICE, YOU AGREE TO BE BOUND BY THE FOLLOWING TERMS." In some cases, the full text of the license agreement will also appear on, or be accessible from, the initial or "welcome" screens of a database. Potential licensees will be instructed that proceeding through the database will be deemed an acceptance of the terms and conditions of the license agreement, or, in some cases, will be prevented from proceeding unless the word "accept" or some keystroke equivalent is entered. *GENie*, *Prodigy* and *CompuServe* all have some version of this electronic, online acceptance. For a discussion of the enforceability of this type of electronically accepted license agreement, see *infra* note 75.

71: See *infra* note 75 for discussion of shrink-wrap licenses.

72. Rakoff, *supra* note 67, at 1176; see also 3 CORBIN, *supra* note 67, § 559A, at 329-330. "Since the bulk of contracts signed in this country, if not every major Western nation, are adhesion contracts, a rule automatically invalidating adhesion contracts would be completely unworkable . . . . Adhesion contracts, like other contracts, are supposed to be enforced so as to fulfill the reasonable expectations of the parties." *Id.*

Adhesion contracts are, however, not without critics. Indeed, one commentator is of the view that adhesion contracts ought to be considered presumptively (although not absolutely) unen-

sion means nothing more than that the court must review its terms for fairness" since "adhesion contracts are neither inherently wrong nor automatically invalid."<sup>73</sup> The fact that such agreements may have been signed but not read or understood,<sup>74</sup> or indeed not signed but accepted by conduct,<sup>75</sup> is no longer an impediment to enforceability. Courts have

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forceable." Rakoff, *supra* note 67, at 1176. This view, however, is in the distinct minority, and Professor Rakoff "admitted that his view is not yet supported by the cases, nor by prior thinkers such as Professors Llewellyn, Kessler, Leff and Slawson." 3 CORBIN, *supra* note 67, § 559H, at 345.

73. 3 CORBIN, *supra* note 67, §§ 559C, 559H. See also *Wheeler v. St. Joseph Hosp.*, 63 Cal. App. 3d 345, 354, 133 Cal. Rptr. 775, 783 (Cal. Ct. App. 1976). "[A] determination that a contract is adhesive is merely the beginning and not the end of the analysis insofar as enforcement is concerned." *Id.*

74. See, e.g., Rakoff *supra* note 67, at 1179. "There is one additional aspect . . . [that] forms part of the popular conception of the contract of adhesion: the adhering party is in practice unlikely to have read the standard terms before signing the document and is unlikely to have understood them if he has read them. Virtually every scholar who has written about contracts of adhesion has accepted the truth of this assertion, and a few empirical studies that have been done have agreed." *Id.*

75. For a persuasive analysis of the enforceability of unsigned "shrink-wrap" licenses for mass-marketed computer software, see generally Michael G. Ryan, *Offers Users Can't Refuse: Shrink-Wrap License Agreements As Enforceable Adhesion Contracts*, 10 CARDOZO L. REV. 2106 (1989). Unsigned online database license agreements should enjoy the same presumption of enforceability as signed ones. As long as potential licensees are adequately warned that access to the database is subject to the terms of the license agreement, the failure to obtain a signature should have little bearing on the enforceability analysis. "For all intents and purposes, whether the adhering party signs a form he has not read or indicates his 'assent' by action should make no difference. Either his signature or his action should be sufficient to satisfy the nominal assent required to initiate a review of the adhesion contract for fairness. Indeed, the *Restatement* contemplates that accepting an adhesion contract by conduct should constitute assent." *Id.* at 2128 n.107.

Moreover, because of the nature of the marketing and billing of online databases, proponents of online database license agreements should face fewer obstacles to enforceability than their counterparts in the software arena. First, unlike typical computer software users, licensees of online databases must communicate directly with the licensor's host computers each time they access the database. This "interactive" contact permits online database suppliers to engage in an "electronic offer and acceptance" dialogue. By inserting on the initial or "welcome" screen of the database the text of (or a reference to an online version of) the license agreement and requiring the licensee to indicate his or her acceptance of the terms of the agreement by typing the word "accept" (or a keyboard equivalent), the licensor can, in effect, obtain an online "signature" indicating the licensee's acceptance of the terms of the license agreement. Second, because most computer programs are not purchased directly from the publisher, but in remote retail outlets, proponents of shrink-wrap software agreements must overcome arguments that the purchaser has no "privity of contract" with the publisher. "This lack of privity results in claims that the purchaser contracted with the retailer for the outright purchase of the software, thus invalidating any unilateral license agreement which divests the purchaser of title." *Id.* at 2127. Many online database vendors, on the other hand, rely exclusively or primarily on direct sales to the public. Moreover, unlike software purchases which typically involve the payment of a one-time, up-front fee to a remote retailer, charges for database usage are billed directly to the licensee by the licensor on a monthly basis, thereby establishing an ongoing relationship between licensor and licensee that should effectively overcome lack of privity claims.

In *Step-Saver Data Systems, Inc. v. Wyse Technology*, the Third Circuit considered whether a shrink-wrap license should have been incorpo-

been forced to depart from traditional notions of "mutual assent" in their analysis of the enforceability of adhesion contracts. "Because there is no basis for finding true assent to adhesion contracts, assent is reduced to a nominal requirement in this analysis. . . . Instead of assent, fairness and commercial justification are dispositive of whether adhesion contracts are to be enforced . . . ."76

## 2. Enforceability of Online Database License Agreements

Courts will enforce the terms of an adhesion contract if there are legitimate business objectives for using an adhesion contract, and if the specific terms of the contract are narrowly tailored to achieve these objectives.<sup>77</sup> One recent commentator summarized the commercial justification for the use of adhesion contracts by modern businesses:

Adhesion contracts, by providing an inexpensive way to define the legal relationship between the contracting parties, provide a valuable tool for ordering commercial transactions. From the drafting party's viewpoint, enforcing adhesion contracts creates efficiency within the industry since all contracts are standardized. Additionally, adhesion contracts promote distribution of goods and services which would otherwise be restricted because of the cost of negotiating a tailored contract with each purchaser. Adhering parties benefit from enforceability because goods and services are available at a lower cost because of reduced transaction costs. Adhesion contracts thus benefit both parties to the transaction and are enforceable despite the absence of specific assent by the adhering parties.<sup>78</sup>

Reduction of transaction costs and standardization of contractual arrangements are undeniably legitimate business objectives of proprie-

rated into a prior agreement between merchants for the sale of goods. 939 F.2d 91 (3d Cir. 1991). The disclaimer was contained on packages of software that the plaintiff had purchased from the defendant for the purpose of combining with hardware and marketing to third parties. The court stated the "[w]hen a disclaimer is not expressed until after the contract is formed, U.C.C. § 2-207 governs the interpretation of the contract, and, between merchants, such disclaimers, to the extent they materially alter the parties' agreement, are not incorporated into the parties' agreement." *Id.* at 105. The court found that the contract had been formed at some point prior to the plaintiff's receipt of the shrink-wrap licenses, when the parties exchanged telephone calls, purchase orders and invoices, and goods and money. Because the shrink-wrap disclaimer would "substantially alter" the parties' agreement, the court found that it could not become part of the agreement. *Id.* In light of *Step-Saver*, online database proprietors should take all necessary steps to insure that licensees are not permitted access to the database without first having been presented with a copy of, and having accepted, the license agreement.

76. Ryan, *supra* note 75, at 2124-25. See 3 CORBIN, *supra* note 67, § 559B, at 334. "[F]airness implies an objective inquiry, from the viewpoint of society in general, whether what someone got was worth what it cost him." *Id.*

77. 3 CORBIN, *supra* note 67, § 559G. The authors could find no case in which the enforceability of an online database license agreement was at issue.

tors of online databases.<sup>79</sup> An even more important objective, however, is the creation of an efficient, uniform mechanism for protecting the proprietor's most valuable asset: the data in the database.<sup>80</sup> In light of the ease with which information in a database can be downloaded and redistributed, competitors unfettered by use restrictions could quickly render the once-valuable data substantially less valuable.<sup>81</sup> In addition, online database license agreements provide proprietors with needed protections against potential liabilities that might otherwise overwhelm them. Indeed, because large collections of data are bound to contain errors or omissions, few database proprietors would be willing to risk, much less be able to find someone to underwrite the risk of, providing information to the public absent enforceable disclaimers of warranties and limitations of liability such as are typically found in online database license agreements.<sup>82</sup>

Moreover, the specific use restrictions of online database license agreements are narrowly tailored to achieve these legitimate business purposes.<sup>83</sup> A typical online database agreement provides that the data retrieved by the licensee from the database may be "stored in memory, manipulated, analyzed, reformatted, printed, and displayed" for the licensee's "personal, noncommercial use."<sup>84</sup> The use restrictions, on the

79. Prodigy alone has over one million members. See *Prodigy Network Defends Display of Anti-Semitic Notes*, THE WALL STREET JOURNAL, Oct. 22, 1991, at B1, col. 3. Attempting to negotiate individual agreements with that number of members would be an exercise in commercial folly.

80. This is especially true in light of the uncertainties generated by *Feist*.

81. For a good discussion on the enforceability of restrictive clauses in adhesion contracts, see 3 CORBIN, *supra* note 67, § 559E, at 340 ("Businesses have a right to survive.").

82. See DIALOG Service Agreement, MARX, *supra* note 65, at 185. Enforceability of warranty disclaimers and limitations of liability in adhesion contracts requires a lengthy analysis, beyond the scope of this article. Cases where overreaching disclaimers and limitations have been held unenforceable are numerous. See generally U.C.C. § 2-301 cmt. 1 (and cases cited therein). The authors maintain, however, that, given the sheer volume of the information compiled by online database vendors and the difficulty of compiling and distributing such information in electronic form, the warranty disclaimers and limitations of liability in the typical online database license agreement are fair, commercially justified and, therefore, enforceable. Online database distributors are held to a different standard than vendors of goods; license terms tracking the protections to which database distributors are otherwise entitled should be deemed enforceable. See, e.g., *Daniel v. Dow Jones & Co.*, 520 N.Y.S.2d 334 (N.Y. Civ. Ct. 1987) (database "is entitled to the same protection as more established means of news distribution," thus, proprietor not liable for alleged negligent misrepresentation to subscriber); see also *Gutter v. Dow Jones, Inc.*, 490 N.E.2d 898 (Ohio 1986) (newspaper publisher not liable for "negligent misrepresentation" to reader who allegedly relied on inaccurate information contained in newspaper).

83. "[A]dhesion contract terms cannot be fair unless there is some good reason for the business to impose a particular burden on those who deal with it." 3 CORBIN, *supra* note 67, § 559E, at 339.

84. The quoted language is from the *Dow Jones News/Retrieval User Agreement*. The CompuServe Operating Rules state: "Customers may download copyrighted material for their own use." The Prodigy Service Member Agreement provides that "Members may reproduce copy-



other hand, are specifically designed to preserve the value of the data (and the proprietor's investment in it) by prohibiting unauthorized copying, redistribution or other commercial exploitation.<sup>85</sup>

Courts will also review an adhesion contract to determine whether any of its terms are "beyond the reasonable expectations of an ordinary person or are oppressive or unconscionable."<sup>86</sup> The terms of a typical online database license agreement, especially those restricting use of the data, are well within the "reasonable expectations" of the licensee. Most licensees of online databases understand that the restrictions on use and other provisions are necessary to protect the legitimate business interests of the online database proprietor. Licensees are given sufficient freedom to use the information to meet their legitimate needs yet are prohibited from using the information in ways that would diminish the value of the proprietor's investment in the database.<sup>87</sup> Restrictions on use of data, including prohibitions against copying and republication of the facts in the database, are neither oppressive nor unconscionable.

### 3. A Word on Copyright Misuse: *Lasercomb America v. Reynolds*

Some commentators have pointed to the expansion of the doctrine of "copyright misuse" by the United States Court of Appeals for the Fourth Circuit in *Lasercomb America v. Reynolds*<sup>88</sup> as limiting the availability of "contractual protections for licensors of copyrightable

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righted materials displayed on the *Prodigy* service solely for their own personal use." It should be noted that all online database license agreements reviewed in connection with this article are pre-*Feist* versions. Online database proprietors will doubtless be reviewing the terms of these agreements in light of *Feist*.

85. The *Dow Jones News/Retrieval* User Agreement provides that the licensee shall not "reproduce, retransmit, disseminate, sell, distribute, publish, broadcast or circulate the information received through the Service to anyone . . . without the express prior written consent of Dow Jones." *CompuServe's* restriction on use is reprinted at note 66, *supra*.

86. *Wheeler v. St. Joseph Hosp.*, 133 Cal. Rptr. 775, 783 (Cal. Ct. App. 1976). There is some dispute among the authorities as to whether an adhesion contract will be struck down if it is merely unfair, or whether it must be "demonstrably unfair" or "oppressive or unconscionable." See 3 CORBIN, *supra* note 67, at 332 ("Although there is considerable overlap in coverage, not all contracts which are unfair are so grossly unfair as to be unconscionable; though it would naturally follow that all contracts which are unconscionable are unfair. Adhesion contract analysis only strikes down unfair adhesion contracts."). "Unconscionability" is codified but not defined in section 2-302 of the Uniform Commercial Code. The official comment, however, sheds some light on the issue: "The basic test is whether, in the light of the general commercial background and the commercial needs of the particular trade or case, the clauses involved are so one-sided as to be unconscionable under the circumstances existing at the time of the making of the contract." U.C.C. § 2-302 cmt. 1. Since the subject matter of online database license agreements is services rather than goods, it is unlikely that the U.C.C., which applies to transactions in goods, applies.

87. "[F]airness implies an objective inquiry, from the viewpoint of society in general, whether what someone got was worth what it costs him." 3 CORBIN, *supra* note 67, § 559B, at 334.

works.”<sup>89</sup> While *Lasercomb* did hold that certain provisions in a software license agreement amounted to “copyright misuse,” the offensive provisions are not the sort that would appear in a typical online database license agreement. Thus, *Lasercomb* will not alter the enforceability analysis of standard online database license agreements.

Acknowledging that “much uncertainty engulfs the ‘misuse of copyright’ defense,”<sup>90</sup> the court in *Lasercomb* nonetheless held that the presence of certain anticompetitive provisions in *Lasercomb*’s standard software license agreement for its computer assisted die making software “amounts to misuse of its copyright.”<sup>91</sup> The offensive provisions were “extremely broad”: licensees were prohibited, *for the ninety-nine year term of the license*, from competing, directly or indirectly, with *Lasercomb* in the market for computer assisted die making software.<sup>92</sup> After a review of the scant case law,<sup>93</sup> the court concluded that “[t]he misuse arises from *Lasercomb*’s attempt to use its copyright in a particular expression, [*Lasercomb*’s computer assisted die making software], to control competition in an area outside the copyright.”<sup>94</sup>

Even if this questionable extension of the copyright misuse doctrine survives scrutiny, it poses no threat to the typical online database license agreement. We have not seen any agreements that purport to prohibit licensees from competing against the database proprietor in the online database market for any length of time, much less for the ninety-nine year period at issue in *Lasercomb*. Rather, the primary function of the online database license agreements is to prevent the licensee from copying and redistributing the data retrieved from the database, a prohibition whose legitimacy was recognized by the *Lasercomb* court: “*Lasercomb* undoubtedly has the right to protect against copying of the [*Lasercomb* software] code.”<sup>95</sup>

Thus, license agreements, and the use restrictions contained in them, represent the most effective means of protecting online databases. When drafted fairly and used properly, these agreements give online database proprietors legitimate and effective control over the use and exploitation of their valuable asset.

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89. Beck, *supra* note 2, at 2.

90. *Lasercomb*, 911 F.2d at 973.

91. *Id.*

92. The *Lasercomb* license agreement stated that: “Licensee agrees during the term of this Agreement [99 years] . . . that it will not write, develop, produce or sell or assist others in the writing, developing, producing or selling computer assisted die making software.” *Id.* at 973. These restrictions were apparently in addition to the standard prohibitions against copying, disassembling or decompiling the *Lasercomb* software.

93. *Id.*

94. *Id.* at 979.

95. *Id.* at 978.

## IV. TORT-BASED PROTECTION OF DATABASES

*Feist's* strongly worded holding that facts may not be protected by *copyright* does not mean that facts may not be protected. *Feist* itself contemplates non-copyright-based protection of facts. The Court suggests that "[p]rotection for the fruits of . . . research [—presumably, facts—] may in certain circumstances be available under a theory of unfair competition."<sup>96</sup> Indeed, in explaining its rejection of the "sweat of the brow" doctrine, the Court stated that the "best example is *International News Service v. The Associated Press*," a case which rejected copyright protection of facts, but which nevertheless protected facts from misappropriation.<sup>97</sup>

## A. Sources of Unfair Competition Law

As one court recently stated, "[u]nfair competition" includes a broad range of claims" which are cognizable in federal and state courts.<sup>98</sup> State unfair competition law includes both common law and statutory causes of action. Foremost among the non-statutory branches of unfair competition is the misappropriation doctrine which originated in *International News Service v. Associated Press*<sup>99</sup> ("INS"). In *INS*, the Supreme Court affirmed an injunction which prohibited INS from selling, in competition with the Associated Press ("AP"), news which INS had copied from AP. Generally, under the doctrine which emerged from the *INS* case, a cause of action for misappropriation arises when (1) a plaintiff has invested substantial time and money to develop a "property"; (2) a defendant has appropriated the property at little or no cost; and (3) the plaintiff has been injured by the defendant's conduct.<sup>100</sup>

96. *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 111 S. Ct. 1282, 1292 (interim ed. 1991) (quoting 1 NIMMER & NIMMER, *supra* note 59, § 3.04).

97. *Id.* Surprisingly, *Feist* wrongly states that "Associated Press had conceded taking news reported by International News Service," and that the Court "rendered judgment for International News Service," *Id.* n.\*, when it was INS who had taken the news and AP who had prevailed. 248 U.S. 215, 231 (1918).

98. *Balboa Insurance Co. v. Trans Global Equities*, 267 Cal. Rptr. 787 (Cal. Ct. App.), *cert. denied*, 111 S. Ct. 347 (interim ed. 1990).

99. 248 U.S. 215.

100. See, e.g., *Self Directed Placement Corp. v. Control Data Corp.*, 908 F.2d 462, 467 (9th Cir. 1990); *Balboa Ins.*, 267 Cal. Rptr. at 787. The misappropriation cause of action evolved differently in various jurisdictions. For instance, "[a]lthough it traces its roots to *INS*, the New York misappropriation tort has grown much broader. It is now a fact-oriented action providing relief from all types of 'commercial immorality.'" *Mayer v. Josiah Wedgwood & Sons, Ltd.*, 601 F. Supp. 1523, 1534 (S.D.N.Y. 1985); see also, e.g., *Nash v. CBS, Inc.*, 704 F. Supp. 823, 834 (N.D. Ill. 1989), *aff'd*, 899 F.2d 1537 (7th Cir. 1990). "The Supreme Court of Illinois has not defined the tort [of misappropriation] precisely, but it appears to permit the owner of intellectual property to state a claim for wrongful taking of the property." *Id.*

## B. Preemption

In the context of the copyright law, Congress expressly set forth those aspects of state law which were and were not preempted by the Copyright Act of 1976.<sup>101</sup> Section 301 declares that "all legal or equitable rights that are *equivalent* to any of the exclusive rights within the general scope of copyright . . . are governed exclusively by [the Copyright Act of 1976]."<sup>102</sup> Thus, a state law claim—whether statutory or common law—is preempted "if, but only if, two conditions are met: (1) the work in which the right is asserted is fixed in a tangible form and comes within the subject matter of copyright [as defined by 17 U.S.C. sections 102 and 103]; and (2) [the state law created] right is equivalent to any of the [exclusive] rights specified in [17 U.S.C. section 106]"<sup>103</sup>

Although "[s]ection 301 has been applied by various courts to preempt a wide range of actions,"<sup>104</sup> courts have found many state unfair competition claims to survive preemption. Read together, the cases dealing with preemption of unfair competition claims demonstrate the continued availability of state unfair competition law to protect online databases. Three reasons for the continued viability of such claims can

In addition to misappropriation, many jurisdictions recognize that a breach of confidence, or a breach of a confidential relationship, may give rise to a claim of unfair competition. *See, e.g., Walker v. Time Life Films, Inc.*, 784 F.2d 44, 53 (2d Cir.), *cert. denied*, 476 U.S. 1159 (1986); *Balboa Ins.*, 267 Cal. Rptr. at 801-02. "Unfair competition" also encompasses claims for misappropriation of trade secrets. Finally, there "lies a host of often overlapping theories" which provide the bases for unfair competition claims, including "breach of fiduciary duty, interference with prospective economic advantage . . . and interference with contractual relations." *Balboa Ins.*, 267 Cal. Rptr. at 795.

Moreover, various states have codified aspects of the law of unfair competition. For example, Massachusetts General Law chapter 93A, section 2(a) "makes unlawful any 'unfair or deceptive' acts or practices in the conduct of any trade or commerce." *Haberman v. Hustler Magazine, Inc.*, 626 F. Supp. 201, 214 (D. Mass. 1986) (quoting MASS. GEN. LAWS ANN. ch. 93A, § 2(a) (West 1985)). Similarly, California statutes empower "a court to enjoin unfairly competitive acts." *Balboa Ins.*, 267 Cal. Rptr. at 787 (citing CAL. BUS. & PROF. CODE §§ 17200 & 17203 (West 1988)). Such statutes provide private causes of action for acts of unfair competition.

101. *See* 17 U.S.C. § 301 (1988). Generally, as the Second Circuit recently reiterated: The Constitution's Supremacy Clause may compel invalidation of state law in several ways: "First, Congress may in express terms declare its intention to preclude state regulation in a given area . . . . Second, in the absence of an express declaration, preemption may be implied when the federal law is 'sufficiently comprehensive to make reasonable the inference that Congress left no room for supplementing state regulation. . . .' Finally, state law may be preempted 'to the extent that it actually conflicts with a valid federal statute.'" *Association of Am. Medical Colleges v. Cuomo*, 928 F.2d 519, 522 (2d Cir.), *cert. denied*, 112 S. Ct. 184 (interim ed. 1991).

102. 17 U.S.C. § 301 (1988) (emphasis added).

103. *See, e.g., Stillman v. Leo Burnett Co.*, 720 F. Supp. 1353, 1362 (N.D. Ill. 1989); *Brignoli v. Balch Hardy & Scheinman, Inc.*, 645 F. Supp. 1201, 1204 (S.D.N.Y. 1986). *See generally*, 1 NIMMER & NIMMER, *supra* note 59, § 1.01[B].

be discerned from the cases. First, the legislative history of the Copyright Act demonstrates Congress' intent that states continue to provide remedies for the misappropriation of "hot" news and information stored in databases. Second, some courts have found that *facts* stored in databases, as opposed to the expression of those facts, are not within the subject matter of copyright. Finally, many unfair competition claims include "extra elements" so that the claims are not equivalent to any of the rights under copyright.

### 1. Certain Misappropriation Claims Are Not Preempted

The legislative history of the Copyright Act of 1976 evinces Congress' intent that some state unfair competition claims survive preemption. The House Judiciary Committee Report on the 1976 Amendments to the Copyright Act states that:

"Misappropriation" is not necessarily synonymous with copyright infringement, and thus a cause of action . . . is *not preempted* if it is in fact based neither on a right within the general scope of copyright . . . nor on a right equivalent thereto. For example, state law should have the flexibility to afford a remedy . . . against a consistent pattern of unauthorized appropriation by a competitor of the facts . . . constituting "hot" news, whether in the traditional mold of *International News Service v. The Associated Press*, or in the newer form of data updates from scientific, business, or financial data bases.<sup>105</sup>

In view of this legislative history, it is not surprising that courts have declared that "Congress clearly intended to preserve some form of the tort of misappropriation."<sup>106</sup>

Consistent with Congress' clearly expressed intent, courts have held that claims alleging the misappropriation of hot news are not subject to preemption. Moreover, courts have confirmed that, in accordance with congressional intent, claims alleging the misappropriation of data from online databases likewise are not preempted.

For instance, in *Nash v. CBS, Inc.*, the Northern District of Illinois held that "all misappropriation claims, *except* those similar to the examples cited in the House Report, are preempted."<sup>107</sup> The court ex-

105. H.R. Rep. No. 1476, 94th Cong., 2d Sess. 132, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5748 (emphasis added).

106. *Nash v. CBS, Inc.*, 704 F. Supp. 823, 834 (N.D. Ill. 1989), *aff'd*, 899 F.2d 1537 (7th Cir. 1990); *see also* *Financial Info., Inc. v. Moody's Investors Serv.*, 808 F.2d 204, 209 (2d Cir. 1986), *cert. denied*, 484 U.S. 820 (1987) ("'misappropriation' of 'hot' news under [INS] is] a branch of the unfair competition doctrine not preempted by the Copyright Act according to the House Report"); *Mayer*, 601 F. Supp. at 1534 ("It is . . . not surprising that the House Report considered misappropriation to survive preemption.").

plained that because the misappropriation claims at issue in *Nash* involved the use of ideas contained in a historical work, and did “not involve the ‘systematic’ appropriation of ‘hot news’ or valuable stored information,” the claims were preempted.<sup>108</sup> The import of *Nash*, however, is its confirmation that misappropriation claims related to hot news or valuable stored information are not preempted.

Similarly, the Southern District of New York has confirmed the continued vitality of state claims alleging the misappropriation of hot news or information stored in databases. In *Mayer v. Josiah Wedgwood & Sons, Ltd.*,<sup>109</sup> the court culled from the legislative history of the Copyright Act examples of “misappropriation claims preserved by the statute.” One “example of an unpreempted misappropriation action” set forth by the court involved the taking of hot news.<sup>110</sup> The court also specified that a state misappropriation action properly would lie when one “improperly invades another’s computerized data base and gains access to the data.”<sup>111</sup> The court explained that “these examples involve subject matter other than copyright, specifically the facts and data as opposed to their expression,” and thus are not subject to preemption.<sup>112</sup>

Likewise, in *Financial Information Inc. v. Moody’s Investors Service*,<sup>113</sup> the Second Circuit recognized that a claim alleging the misappropriation of hot news “is not preempted.” The court did find that the misappropriation claim there at issue was preempted, however, because the disputed information was “at least ten days old,” and thus, no longer “hot.”<sup>114</sup> Although finding preemption, the Second Circuit was careful to note that the claim at issue did not involve the “use of information from ‘data bases’”; rather, “the material in question here was obtained through conventional channels.”<sup>115</sup>

## 2. Facts Fall Outside of the Subject Matter of Copyright

Compelling arguments can be made that facts, as opposed to their expression, selection, or arrangement, fall outside of the subject matter

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108. *Id.* at 835 (emphasis added).

109. 601 F. Supp. at 1534.

110. *Id.*

111. *Id.*

112. *Id.*

113. 808 F.2d 204 (2d Cir. 1986), cert. denied, 484 U.S. 820 (1987).

114. *Id.* The court explained that “the ‘hot’ news doctrine is concerned with the copying and publication of information gathered by another before he has been able to utilize his competitive edge.” *Id.* The plaintiff had “proved neither the quantity of copying nor the immediacy of distribution necessary to sustain a ‘hot’ news claim.” *Id.*

of copyright, and thus, actions sounding in misappropriation of facts should escape the preemptive effect of section 301.

At least one court has adopted this reasoning in holding that a claim alleging the misappropriation of facts was not preempted. In *Rand McNally & Co. v. Fleet Management Systems, Inc.*,<sup>116</sup> the plaintiff asserted that the defendant had misappropriated portions of a "mileage guide" by using data which was contained therein.<sup>117</sup> The court explained that:

Use [in contrast to reproduction of the factual data,] may be clearly outside of the subject matter of copyright. For example, a print-out of one particular distance (as opposed to a print-out of the entire compilation) would not be within the subject matter of the [Copyright] Act, as it is a fact[,] not a part of a compilation.<sup>118</sup>

Accordingly, the court held that because "use of the reproduced data bank may be outside of the subject matter test of section 301(a), it is outside of the scope of the preemption doctrine."<sup>119</sup>

This reasoning was echoed by the court in *Mayer v. Josiah Wedgwood & Sons, Ltd.*<sup>120</sup> As discussed above, *Mayer* attributed the congressional intent that database and hot news claims not be preempted to the fact that "facts and data[,] as opposed to their expression," involve "subject matter other than copyright."<sup>121</sup> Similarly, Professor Nimmer has posited:

[I]nsofar as [INS] applied the misappropriation doctrine to news per se, and not to its expression, it would be immune from federal preemption. This for the reason that the Supreme Court recognized that news per se cannot be regarded as a 'writing' within the meaning of the Copyright Clause of the Constitution.<sup>122</sup>

*Feist* may provide further support for the proposition that misappropriation of fact claims avoid preemption.<sup>123</sup> *Feist* made clear that

116. 591 F. Supp. 726 (N.D. Ill. 1983).

117. *Id.* at 739.

118. *Id.*

119. *Id.* Although ruling that the Copyright Act presents no bar to a claim which alleges misappropriation by use of information, the court reserved judgment as to whether such a claim would be barred by the First Amendment. *Id.*

120. 601 F. Supp. 1523.

121. *Id.* at 1534.

122. 1 NIMMER & NIMMER, *supra* note 59, § 1.01[B] n.102.

123. Indeed, *Feist* suggests that "[p]rotection for the fruits of . . . research . . . may in certain circumstances be available under a theory of unfair competition." 111 S. Ct. at 1292 (quotation omitted). See also *Bellsouth Advertising & Publishing Corp. v. Donnelley Info. Publishing, Inc.*, 933 F.2d 952, 957 n.11 (11th Cir. 1991) (post-*Feist* case declaring that information "accumulated by the 'sweat of the brow'" may be "protected under the law of unfair competition").

the Constitution precludes Congress from including raw facts within the scope of copyright.<sup>124</sup> As Nimmer argued, if "Congress may not legislate a copyright in facts, it likewise may not preempt the states from enacting such legislation."<sup>125</sup>

### 3. Certain Unfair Competition Claims Are Not Preempted

Pursuant to section 301, claims which encompass rights which are not "equivalent" to rights under copyright are not subject to preemption. A state law right is equivalent if "'(1) it is infringed by the mere act of reproduction, performance, distribution, or display, or (2) it requires additional elements to make out a cause of action, but the additional elements do not differ in kind from those necessary for copyright infringement.'"<sup>126</sup> For instance, an unfair competition claim which seeks to remedy harms resultant from the "unauthorized use or transfer" of software "adds nothing to a potential copyright infringement claim," and thus is preempted.<sup>127</sup>

In contrast, breach of confidence claims are not preempted. As one court explained, a "breach of confidence claim is nonequivalent to the rights one can acquire under copyright law; rather it rests on an obligation not to disclose to third parties ideas revealed in confidence, which obligation is judicially imposed only upon a party that accepts the relationship."<sup>128</sup> Accordingly, courts routinely hold that unfair competition claims based upon alleged breaches of confidence survive preemption.<sup>129</sup> Similarly, it is beyond question that section 301 does not impair states' abilities to provide remedies for the misappropriation of trade secrets.<sup>130</sup>

Because of the apparent willingness of courts to entertain causes of action based upon breaches of confidences, the law of unfair competi-

124. 111 S. Ct. at 1288.

125. 1 NIMMER & NIMMER, *supra* note 59, § 2.11[E] n.30. The argument that fact-based unfair competition claims are not preempted because facts fall outside the scope of copyright is intuitively appealing. It appears, however, that the prevailing view is that "[s]tate law claims do not avoid preemption simply because they are based upon the improper use of uncopyrightable material contained in works properly the subject of copyright." *Nash v. CBS, Inc.*, 704 F. Supp. 823, 832 (N.D. Ill. 1989).

126. *Stillman v. Leo Burnett Co.*, 720 F. Supp. 1353, 1362 (N.D. Ill. 1989) (quoting *Baltimore Orioles v. Major League Baseball Players Ass'n*, 805 F.2d 663, 678 n.26 (7th Cir. 1986), *cert. denied*, 480 U.S. 941 (1987)).

127. *Balboa Ins. Co. v. Trans Global Equities*, 267 Cal. Rptr. 787, 803 (Cal Ct. App.), *cert. denied*, 111 S. Ct. 347 (interim ed. 1990).

128. *Smith v. Weinstein*, 578 F. Supp. 1297, 1307 (S.D.N.Y.), *aff'd*, 738 F.2d 419 (2d Cir. 1984).

129. *See, e.g.*, *Brignoli v. Balch, Hardy & Scheinman*, 645 F. Supp. 1201, 1205 (S.D.N.Y. 1986); *Ronald Litoff, Ltd. v. American Express Co.*, 621 F. Supp. 981, 986 (S.D.N.Y. 1985); *Sargent v. American Greetings Corp.*, 588 F. Supp. 912, 924 (N.D. Ohio 1984).

130. *See, e.g.*, *Brignoli*, 645 F. Supp. at 1205; *Balboa Ins.*, 267 Cal. Rptr. at 801.



tion should continue to provide an additional layer of protection for proprietors of databases. Inclusion of confidentiality provisions in database licenses should provide a legitimate basis for cognizable tort claims even in the unlikely event that *INS*-type misappropriation claims are found to be preempted.<sup>131</sup>

#### V. CONCLUSION

*Feist* has clearly altered the landscape of copyright protection of factual compilations. As we have demonstrated, however, the alarmists who claim that this new landscape now permits strip-mining of online databases are misguided. Not only does copyright remain a viable source of protection for online database proprietors, but contract law and tort law will continue to thwart those who would misappropriate information from online databases. The sky has not fallen after all.

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131. The causes of action discussed herein are aimed primarily at the improper use of data by those who are authorized to use the data. Additional protection is available against the unauthorized entry into databases. See, e.g., VA. CODE ANN. § 18.2-152.4 (Michie 1986) (criminalizing computer trespass), 1991

