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Presentation by Paul T. Sheils, Esq.

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MR. SHEILS: I feel bad having to interrupt that rather exciting exchange which we just broke from. Given the hour, I think it is appropriate to take you off the main topic we are discussing today. I view my role here this afternoon not so much as bringing you back down to earth as to the real world. As Bob Kreiss mentioned, I am general counsel of the Dow Jones Information Services Group and we publish an online database, which you may know about. When *Feist* came out, my clients, not unlike clients of the other—Kurt Steele will appreciate this—the other capitalists among us, the commercial types, wondered what this meant to those of us in the business of producing online databases.

I should mention that my comments are specific to online databases not hard-copy published factual compilations, and not CD-ROMS. What I intend to get into is not copyright metaphysics but Contracts 101.

The focus of my comments and the focus of the paper we submitted is in response to fears generated by *Feist*, both by commentators and by some cases that my clients and the clients of other online database proprietors have read.

For example, in a recent article in the *Computer Lawyer*, Henry Beck told my clients and others in no uncertain terms that *Feist* was going to create a "gold rush" on information, that secondary compilers could come into an online database situation, download, and freely republish without any problem. He actually coined a phrase: "the information aftermarket," which meant something to the folks at Dow Jones, and they wondered if I could respond to this notion. And I did respond to them as most lawyers do on the phone, saying not to worry, *Feist* was fact specific, it dealt with white pages; we are an online database, we should have some additional protections.

But then Bob Kreiss gave me a call out of the blue and said that he was holding a symposium on *Feist* and would I respond in a more formal way to the issue of whether the sky was falling on the intellectual property rights of database proprietors. I said sure I'll do that.

Essentially what we did, Bob Penchina and I, was analyze what remaining protections are available to online database proprietors. We think there are three, three alternative theories, three pillars, if you will. I think the one that we focused on most this morning obviously is copyright. The second, that we also touched on this morning, was misappropriation, and the third pillar, and I think the stronger pillar, is contract law.

I should mention that we could not find a case that construes the enforceability of an online database license agreement. There are lots of cases construing adhesion contracts. There are lots of cases that at least looked to shrink-wrap licenses, [*Quaid*] in the software field, but nothing specific to online databases.

In fact, just as we completed the paper, I read in *The Wall Street Journal*, as many of you did as well, that Core Search sued Thompson & Thompson. Thompson & Thompson, as you know, publishes trademark databases and one of them is a state database called TrademarkScan. Thompson & Thompson makes TrademarkScan available in a variety of media. The one at issue in this case was the online database available through DIALOG, a generally available online database.

Core Search is a signatory to the DIALOG online database agreement. And as many of you know, DIALOG has, in addition to its standard terms and conditions in the master agreement, each of the database proprietors that are available through DIALOG have additional restrictions printed on what are called the "blue sheets". And TrademarkScan has its own set of prohibitions on use and resale, which are typically found in situations like this.

Core Search at the time (this was several years ago—I know this because I gave a call to the Thompson & Thompson lawyers who are involved in this case in anticipation of making you aware of the case) approached Thompson & Thompson for permission, as is permitted in the DIALOG contract, to resell the results of the searches that Core Search made in the Thompson & Thompson state trademark database.

Thompson & Thompson said, "sure," obviously thinking these guys were small and they wanted to get the revenue from what could be conceivably a large revenue stream from a small house, "you guys go ahead and subscribe to our service through DIALOG and we will give you separate written permission that will enable you to resell that information to your subscribers for a limited period of time."

Well, not surprisingly, when Core Search got a little bigger Thompson & Thompson reviewed its permission and several weeks ago, actually I guess ninety days ago, determined to rescind that permission. And Core Search has sued them in the Southern District of New York, generally sounding in antitrust, claiming that the TrademarkScan is an essential facility. But they threw in—and this is what the focus of *The Wall Street Journal* article was, which I think was misplaced by the way—a sixth count in the complaint sounding essentially in copyright or lack thereof. Core Search is arguing that, in light of *Feist*, there is no copyright protection for the factual contents of the Thompson & Thompson database and that they are, therefore, free to resell the information to Core Search's subscribers.

Now, from our perspective, that is a bit like an attack on the sacred kingdom; so we were fortunate to have already done a substantial amount of research into, in anticipation of writing the paper, the enforceability of in-use restrictions in light of *Feist*.

Now, there are other provisions in the user agreements or online license agreements that we can talk about, but the one specific to this conference, obviously, would be the use restrictions, prohibitions on resale, and prohibitions on copying.

Core Search's *Feist*-based copyright defense is a very troublesome issue for us, especially in light of the fact that the Core Search complaint doesn't mention the fact that there is a license agreement in place. They simply attempt to rely only on the copyright notion, much like the court in *CNN* which just picked *Feist* out of the air and dropped it into a footnote and said *Feist* puts all compilations in danger.

Now, one of the dangers of *Feist*—that I did not predict to my clients—was that plaintiffs' lawyers would be using *Feist* in ways that were unimaginable before. Core Search is attempting, I think, to ignore the existence of an online database license agreement and rely instead on *Feist*'s sanctification of facts, in terms of giving Core Search permission to do things that the license agreement specifically prohibits.

So what I want to do is focus very briefly, since I know it is getting late, on very basic but I think fundamental, and hopefully comforting notions of contract law that address the issue of whether or not DIALOG, who is also a named defendant in that case, and others who may become subject to similar lawsuits, have a leg to stand on.

We argue that they have three legs to stand on in this particular case, and in other cases in which a competitor or a second compiler would come and actually download the information from the database and for commercial purposes, copy it or redistribute it.

The first is, in fact, copyright. We do not think that the copyright protection for databases is gone by any means. As Kurt [Steele] and others have mentioned, there is a great deal of expression in databases. They may not have the same degree of protection available to print compilations because bits and bytes can be easily rearranged and can't really be fixed, but the selection of the information remains subject to copyright.

I was particularly interested to listen to Jack McDonald's disclosures on the lack of factual information available to the court in *Bellsouth*. We find *Bellsouth* a particularly helpful case in the copyright analysis of protecting against downloaders and redistributors in that it can be read, we think, to indicate that that there were three separate infringements that the court found in *Bellsouth*.

For our purposes the important one was the act of keying in the codes (if that is inaccurate then Jack [McDonald] maybe should tell us) but the court seemed to indicate that the fact that the second compiler had copied the codes, therefore the selection, was an independent infringement. This could support the argument that the copying or downloading of a database, even as an intermediate step in the creation of a second compilation that does not actually have the elements of copyrightability or elements of similarity and selection and organization as the first compilation, the mere downloading could itself be an actionable infringement, because that act of bringing down the information with the selection in place could be said to be the infringing copy. We do not rely on copyright as being the strongest of the three pillars for protection of online databases. It is clear that protection is becoming thinner.

Misappropriation is something that I think is very viable, very vibrant, and I applaud Professor Patterson's and Professor Raskind's notions of federal and state misappropriation statutes that indicate that neither *Feist* nor section 301 of the Copyright Act, reduces to shambles every possible misappropriation theory in a factual online database copying case.

We obviously think *INS* remains viable. Our database, as well as others, is a dynamic database. It is updated frequently so, therefore, fits quite nicely into the hot news exception or hot news category that *INS* stood for.

Let me briefly mention that we have looked at a number of the major online database proprietors and online database services, and we do not know any online database proprietors that rely exclusively on copyright to protect their databases. Each of them has some form of license agreement. Now, the more highly specialized ones have signed license agreements. Others have unsigned license agreements, and we are in that category. Dow Jones News/Retrieval's license agreement is a "bound by use agreement." It says it in quite bold letters and we make every effort to notify the subscriber, before accessing the database, that access itself, the act of accessing, binds the subscriber to the terms and conditions of the license agreement. A third category I think is where we will be migrating to in light of *Feist* and I think a lot of people are going to be reevaluating both the terms of license agreements themselves and the nature in which they are accepted in light of *Feist*.

There is a third category of license agreements that are the domain of the largest of the online database proprietors, the big consumer ones: Prodigy, CompuServe, and Genie. They all have preprinted form license agreements but none of them are signed in the same way that a

D & B license agreement or an S & P license agreement or a DIALOG license agreement, for that matter, is signed.

Prodigy has over a million members. CompuServe has over 800,000 members. And they have taken, I think, the justifiable position that it would be commercial folly to try to get signed agreements from every one of those subscribers. So they have taken the approach, not unlike Dow Jones, that here is the license agreement and they make absolutely clear in their promotional material, at least they attempt to make absolutely clear in their promotional material, that accessing the database indicates acceptance.

But they take a further step which I think is the equivalent (and will be determined to be the equivalent) of a manually signed license agreement. As many of you know, each of those services has what is called "online acceptance" of the agreement. You are generally prohibited from moving from the first welcome screen or initial screen unless you agree to the terms and conditions of the license agreement, which contain the use restrictions that we are so concerned about today, by typing "agree" or "accept" or the keystroke equivalent of that. Only then, when you have that electronic acceptance, are you put into the balance of the database. One can then argue that the electronic acceptance is the equivalent of a manually signed acceptance, and they are in a better position to argue the enforceability.

But even if they did not have that, I am certainly one of the ones in favor of the enforceability of shrink-wrap, even shrink-wrap software, license agreements. Our analysis of the rather complex case law and prodigious amount of comment on adhesion contract analysis is that because most folks' knee-jerk reactions to a preprinted form is that it is essentially non-negotiable, very few people actually read them, and that it has got to be presumed unenforceable. So, therefore, you are really back into your misappropriation and copyright pillars to try to protect against downloaders.

The reverse is true. Corbin and others have made quite clear, and the cases make quite clear, that a hundred years of jurisprudence on the issue of the enforceability of adhesion contracts concludes that adhesion contracts are *presumed* enforceable, which is a big step.

Because of the advance of mass marketed goods and services, many corporations and many businesses were forced to develop adhesion contracts. An adhesion contract has a pejorative sense to it, but it should not because the law is quite clear on the fact that they are as good as negotiated contracts. Indeed there are not the same traditional notions of mutual assent, offer, and acceptance that generally courts in the old days could look to in terms of whether or not the terms and conditions of a contract were enforceable because they were accepted.

That long ago fell by the wayside. The notions of mutual assent are now very technical; did he see it, yes; did he have to read it, no.

The courts have focused on two levels of analysis to determine whether or not an adhesion contract is enforceable, and they are quite simple. The first is whether or not there is commercial justification for the use of an adhesion contract, and the second is whether or not it is fair.

And there is a great deal of debate among the scholars and confusion in the case law, as to what that standard really means. Is a term fair? A lot of people misinterpret fairness and rely on notions of unconscionability under 203 of the UCC or suggest that it has to be grossly unfair or very unfair, they are all over the lot.

The lowest common denominator is the one that I think everyone should be comfortable with. That is Corbin's. Is it fair? To the party that adheres to the contract, is the term within his reasonable expectations? And more importantly, did he get what he bargained for?

This is a very basic contract notion, and it is no different than the analysis that will be made in the *Thompson & Thompson* case. And I am sure that there will be cases that will follow it in terms of aggressively attacking the enforceability of online database license agreements. The notion is whether or not the contract is commercially justified and is fair.

Now, in terms of commercial justification I do not think that is much of an argument. No court is going to require that a purveyor of goods or services with millions of subscribers have a signed agreement nor do they have to negotiate the terms of the agreement. (I should also mention by the way, as an aside, that these comments are really to the consumer world and to the small business world. Many of the online database proprietors that supply their databases to other businesses do, in fact, engage in significant negotiations. I can certainly speak to that on issues like use restrictions and warranty disclaimers on access to online databases.) But in the nonbusiness-to-business context or the dominant player to smaller player context, the issue will become whether or not the online database proprietor is entitled, as a matter of commercial justification, in the court's opinion, to rely on an unsigned agreement. Given the reduction in transaction costs that redound to the benefit of both parties in that equation, I think that it is commercially justified. If, in fact, the policy was to require an individual negotiation and an individual signature, the cost of supplying these databases would skyrocket.

The second issue is whether or not the terms and conditions that appear in these agreements and use restriction (the prohibition against copying for commercial purposes) is clearly the one that we are talking about today) are sufficiently narrowly tailored to the meet the legitimate objectives of the licensor or the database proprietor. That implies or infers notions of fairness as well.

I would submit to you that the typical online database license agreement gives the user, gives the subscriber, the benefit of the bargain that he sought. It gives him sufficient use of the information to meet his needs.

The use restrictions are the legitimate protections of the database proprietor to protect the value of his investment. If, in fact, he did not have the protections of no copying and no commercial exploitation of the information, the obvious would occur; anyone, armed with a powerful work station with a lot of megabytes of memory and a modem, could download the database in today's technology and create a duplicate database overnight, put an ad in *The Wall Street Journal*, and put the database proprietor out of business in short order.

I think the notion of fairness is also important in that it addresses the reasonable expectations of the user. Again it is kind of a difficult contract notion, but I do not think it is much of a hurdle to suggest that the typical online user does not have a reasonable expectation of commercial exploitation of the data or database that he is subscribing to and paying dollars for.

So it is quite a simple analysis in terms of straight contract adhesion law. I apologize for it being as mundane as it is, but I think it is important for the practitioners in the room to know that copyright is not the only answer, that you do have considerable protection, and I think a winner in terms of your ability to prohibit what copyright law may no longer prohibit.

Some database proprietors' license agreements have exclusions. They say things like you may not copy or otherwise reproduce unless authorized by the licensor, and I have seen some, actually some from proprietors in this room, that have an exception for equivalence of fair use. In fact, they rely on copyright notions to provide exclusions to the general prohibitions on copying, fair use notions. Others have an out-and-out prohibition on redistribution of anything from the database.

The issue will become whether, in terms of the enforceability of the license agreements, the license agreement and the terms that are subject to the dispute are justified and are fair.

I know it is late. Let me add two final points. The first of which is that many folks have claimed that even that approach, even the reliance upon online database license agreements, is now suspect because of the resurrection of a beast from the depths, as we have been using the term today, of "copyright misuse" as in *Lasercomb*, which I am sure many of you are familiar with.

Lasercomb was a case in which a software proprietor of a die-making software program, licensed it to a subscriber, but the license agreement also contained prohibitions against competition, noncompete clauses. I think that copyright misuse will be used by some to indicate that restrictions in license agreements are also going to be subject to misuse arguments. In *Lasercomb* it was a particularly egregious example, in my opinion, of a license agreement doing more than it needs to.

The license agreement prohibited the licensee from entering the market for computerized software programs for ninety-nine years, in addition to the prohibitions on decompiling and disassembly and the like—in my opinion unnecessary. The court properly rejected that portion of the agreement. The court relied upon very scant case law to resurrect copyright misuse and said that the license agreement was unenforceable because it misused the copyright.

I do not think any of the agreements that we looked at have anything like a prohibition, a noncompete provision in it, and I would submit that the copyright misuse theory does not really address or undermine the terms that are in typical online database agreements. Those agreements are generally very narrowly tailored to protect the integrity and the investment in the data that the database proprietor is delivering to you for a fee.

The final point would be that the analysis of those agreements that are not signed and have no electronic acceptance (like Prodigy and CompuServe and Genie, and there are many) will fall on notions of similar arguments to the shrink-wrap license cases or case, there's not many of them either.

But the distinguishing factor, and I think an important one (although again the commentators have pretty generally come down in favor of the notion of enforcing shrink-wrap license, for computer software programs as well), is that they run into all sorts of difficulties that many online database proprietors will not—the biggest of which is privity. Many of the software license agreements are sold at remote retail outlets and the license agreement is enclosed in the cellophane package. The proprietor has no contact, in fact, does not receive the cash directly from the buyer. This is a hurdle that the shrink-wrap license folks have to overcome in terms of privity of contract.

This is not generally true in the online database world. Although there are some that engage in remote sales of access kits, for the most part, the licensees, subscribers, or users or whatever you call them, access databases directly, and the sale is directly between the licensee and the licensor, and the payments are always directly between the licensee and the licensor. But most importantly, the contract is directly between the licensee and the licensor.

There is more. I think I should bow out and leave it open for questions. Thank you.