

Fall 1999

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Recommended Citation

Rice, David A. (1999) "Third Party Intellectual Property Rights and Contractual Restrictions: Implications for Implementation of the Telecommunications Act of 1996," *Roger Williams University Law Review*: Vol. 5: Iss. 1, Article 8.

Available at: http://docs.rwu.edu/rwu_LR/vol5/iss1/8

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Article

Third Party Intellectual Property Rights and Contractual Restrictions: Implications for Implementation of the Telecommunications Act of 1996

David A. Rice*

AUTHOR'S NOTE

Incumbent local exchange carrier compliance with 47 U.S.C. § 251 of the Telecommunications Act of 1996 (Telecom Act) requires an incumbent to directly or indirectly provide a competing local exchange carrier access to and use, or the benefit of the incumbent's use, of computer programs and electronic information utilized in providing local services. The author considers the law and policy dimensions of two resulting concerns. The first is that providing requested access to unbundled network elements, interconnection, or sale of services may infringe intellectual property rights of third party patent, copyright, trade secret or other intellectual property licensors. The second is that doing so may breach contract terms that restrict its use or transfer of use-licensed computer program or database copies. The author evaluates these concerns in terms of intellectual property and contract law, including the Uniform Computer Information Transactions Act (UCITA). The concluding section of the paper considers the presentation of

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these issues as matters to be addressed in the implementation of 47 U.S.C. § 251.

Contractual regulation of the use of and access to computer programs and digitally stored information has an importance to the telecommunications industry that generally is overlooked. Scholarly and popular literature tend to deal with the subject either in broad terms or with a focus on commercially distributed computer programs and information products, and standard form shrink-wrap and click-wrap software and information product licenses in particular. While this literature is highly relevant to telecommunications industry members' entry into the on-line service and content provider markets, it does not address issues that have arisen concerning implementation of the local competition provisions of the Telecom Act.

This paper addresses contract and related intellectual property issues presented by the Petition of MCI for Declaratory Ruling,¹ recently addressed by the Fourth Circuit in *AT&T Communications of Virginia, Inc. v. Bell Atlantic-Virginia, Inc.*², and suggested by the Federal Circuit Court of Appeals in *DSC Communications, Corp. v. Pulse Communications, Inc.*³ MCI's petition and *AT&T v. Bell Atlantic* challenge incumbent local exchange carrier (ILEC) refusals to make unbundled network elements available to a competing local exchange carrier (CLEC) on the ground that doing so may infringe third parties' intellectual property rights in network element technologies. *DSC v. Pulse* deals in a quite different context with some of what underlies the challenged ILEC position. It addresses, in part, whether the rights acquired by a lawful user of a copy of a copyrighted computer program differ as a matter of federal copyright law depending on whether the contract under which possession and use was acquired is characterized as a license or a sale.⁴ The court's answer and reasoning bear upon, but are not wholly dispositive with respect to, the intellectual property law issue framed by the MCI petition. Like the MCI petition and *AT&T v. Bell Atlantic*, it is less instruc-

1. *In re* Petition of MCI for Declaratory Ruling (Mar. 11, 1997) (CC Docket No. 96-98, File No. CCBPOL 97-4).

2. 197 F.3d 663 (4th Cir. 1999).

3. 170 F.3d 1354 (Fed. Cir. 1999), *cert. denied*, 120 S. Ct. 286 (1999).

4. The relevance of the case depends little on the fortuity that it concerned telecommunication digital switch technology.

tive with respect to the not usually distinguished question of whether an ILEC would be legally justified in refusing to make unbundled network elements available, or to interconnect or sell services for purposes of resale, on the ground that this would violate a contractual use or transfer restriction rather than infringe third parties' intellectual property rights.

The latter question, gained new importance in July 1999. It was then that the National Conference of Commissioners on Uniform State Laws (ULC) voted final approval of the UCITA as a new uniform state law. This measure, which was introduced as proposed new legislation in some states as early as September 1999, includes state contract law rules which validate contract terms that restrict the use and prohibit the transfer of computer program and electronic information copies. Even if not widely enacted, UCITA may have wide impact by virtue of the fact that it expressly gives effect to contractual choice of law. This paper therefore provides an introduction to key features of UCITA, and makes the uniform act its focus in discussing the ILEC claim that the terms of existing license agreements with their suppliers precludes CLEC interconnection, unbundled network element access, and purchase of retail services for purposes of resale.

Finally, the paper assesses the merits of and potential responses to the proposition that third party intellectual property or contract rights constrain ILEC compliance with 47 U.S.C. § 251(a)-(c). Consideration is given to the *AT&T v. Bell Atlantic* decision published by the Fourth Circuit just prior to this article's publication. It becomes more apparent in this part why it is important to differentiate property from contract rights, and to similarly think critically at other steps so as to refine both legal issues and policy choices.

I. REGULATORY CONTEXT

A. *Telecommunications Act of 1996*

The aim of the Telecom Act is to reduce regulation and promote competition in the provision of telecommunications services. Toward this end, Congress obliged all telecommunications carriers to interconnect directly or indirectly with the facilities and equipment of other carriers, and not to install network features, functions or capabilities that do not comply with guidelines and

standards established by the Commission for interconnectivity coordination.⁵

Congress generally mandated that ILEC's facilitate, not impede, CLEC entry into local telecommunications services markets, and required ILECs to negotiate agreements with requesting telecommunications carriers for network interconnection and for access to unbundled local network elements on terms that are just, reasonable and nondiscriminatory.⁶ This was accompanied by prohibiting the ILEC provision of long distance telecommunications services without obtaining Commission approval.⁷ Gaining that permission requires an ILEC to meet two tests. The first is that it has entered into an approved binding agreement to provide an unaffiliated CLEC with access and interconnection to local exchange network facilities.⁸ The second is to satisfy the Commission that the provided access and interconnection terms meet the requirements set forth in the multi-point "Competitive Checklist" of 47 U.S.C. § 271(c).⁹

Like the legislative process leading to enactment of the statute, the implementation process has been strongly contested. The Commission's First Order and Report on implementation of the local competition and interconnection provisions of the 1996 Act made clear that strong differences of view existed with respect to both approach and particulars. Potential local market entrants generally favored explicit national standards; incumbents and state commissions that traditionally regulated them urged general regulations or guidelines administered by state commissions. When the Commission opted for adopting national standards, the contest was carried into the courts.

State commissions and ILECs challenged the rulemaking in several federal courts, primarily asserting the invalidity of several local competition provisions for the reason that they pertained to interstate matters which are subject to state, not Commission, jurisdiction and rulemaking authority. The various actions were consolidated in the Eighth Circuit Court of Appeals, the decision of which substantially upheld the challenges on the ground that the

5. See 47 U.S.C. § 251(a) (Supp. III 1997).

6. See *id.* at § 251(c).

7. See *id.* at § 271(a).

8. See *id.* at § 271(c)(1)(A).

9. See *id.* at § 271(c)(2).

Commission's general rulemaking power extends only to interstate matters, and that the 1996 Act did not expressly grant new authority to make rules governing interstate telecommunications.¹⁰ A divided Supreme Court in *AT&T Corp. v. Iowa Utilities Board*¹¹ reversed the Eighth Circuit, holding that the Commission's general rulemaking authority includes authority to carry out the local competition amendments to the Telecommunications Act of 1934.¹²

Implementation of 47 U.S.C. § 251 through agreement negotiation and unresolved issue arbitration pursuant to 47 U.S.C. § 252 likewise has been slow and contentious. ILECs tend to view CLECs as seeking to secure too much for too little, or seeking to obtain unfair advantage by selecting beneficial and shunning more heavily cost-burdened network, interconnection and service elements under the pick-and-choose rule¹³ governing CLEC access to unbundled network elements. CLECs, on the other hand, tend to view ILECs as resisting competing local exchange carrier market entry or strategically using the combination of term negotiation and state commission contested term arbitration to secure ILEC-favoring agreements and establish entry-stalling of burdening conditions. Dissatisfaction with the results of state commission arbitration has been the basis for numerous actions in U.S. District Courts pursuant to 47 U.S.C. § 252(e)(6), including *AT&T v. Bell Atlantic*. Within the local competition context, the specific matter discussed below tends to be viewed—depending on one's vantage point—either as one in which CLECs seek too much for too little, or one in which ILECs seek to delay and burden CLEC market entry. Meanwhile one game ball in this contest is third parties' intellectual property and related rights, discussed in Part II of this paper.

10. See *Iowa Utils. Bd. v. FCC*, 120 F.3d 753, 795-96, 800-02, 805-06 (8th Cir. 1997), *aff'd in part, rev'd in part, and remanded sub nom.*, *AT&T Corp. v. Iowa Utils. Bd.*, 525 U.S. 366 (1999).

11. 525 U.S. 366, 376-87 (1999).

12. The Court did affirm the Eighth Circuit's adverse determination with respect to one application of the 1996 Act by the Commission, and the Commission has initiated a proposed rulemaking to address this matter.

13. See 47 C.F.R. § 51.809 (1998).

B. *MCI Petition for Declaratory Ruling Under 47 U.S.C. §§ 251 and 253*

MCI Telecommunications Corp. (MCI) petitioned the Commission for a declaratory ruling that "incumbent local exchange carriers . . . cannot refuse to provide 'just, reasonable, and nondiscriminatory access' to unbundled network elements under the guise of protecting the intellectual property rights of third parties."¹⁴ MCI alleged that at least one ILEC insists that a CLEC secure a separate license or other right-to-use agreement from the manufacturer or other provider of each ILEC network element to which it requests access. Southwestern Bell, according to the petition, included these terms in its filed Statement of Generally Available Terms, and identified agreement to them as an issue in the negotiation and arbitration of agreements pursuant to 47 U.S.C. § 252(1)(a). In an arbitration award made prior to MCI's filing, the Texas Public Utility Commission adopted the Southwestern Bell position subject to two modifications.¹⁵ The first required Southwestern Bell to supply upon request a list of all known and necessary license and right-to-use agreements, while the second required that Southwestern use best efforts to facilitate CLEC acquisition of necessary authorizations. The term created mutual indemnification obligations for losses or expenses arising from any third party claim of infringement. Still, the effect of adopting the principal Southwestern Bell position made this primarily a CLEC obligation to indemnify Southwestern for any losses or claims resulting from the competing carrier's failure to obtain a sufficient authorization, or engaging in conduct exceeding the scope of obtained authorization.

The issue has arisen in several other states, always in the context of state commission arbitration of unresolved issues and, most recently, federal judicial review of the Virginia State Corporation Commission in *AT&T v. Bell Atlantic*. More recent arbitration decisions in Arkansas and Montana squarely rejected the ILEC-preferred position, reasoning that the securing of any necessary

14. *In re* Petition of MCI for Declaratory Ruling (Mar. 11, 1997) (CC Docket No. 96-98, File No. CCBPOL 97-4).

15. *See In re* MFS Communications Co., Inc. Arbitration Award, Tex. Pub. Util. Comm'n, Docket Nos. 16189, 16196 & 16226, slip op. at ¶ 96 (Nov. 7, 1996); *Petition of AT&T Communications of the Mountain States, Inc.*, Mont. Pub. Servs. Comm'n, Util. Div., Docket No. D96.11.200, Order No. 5961d (Apr. 30, 1998).

permissions is part of an ILEC's statutory obligation to provide interconnection and access to unbundled network elements.¹⁶ The Ohio Public Utilities Commission reached a like conclusion and further determined that Cincinnati Bell should pay any additional fees which providing access to unbundled network elements required, the recovery of this cost to be through nondiscriminatory rates based on forward looking costs.¹⁷ Somewhat differently, the Ohio Commission determined that, with respect to interconnection, 47 U.S.C. § 251 requires each carrier to secure any necessary permissions from their own equipment and software providers, but that the CLEC must agree to assume responsibility with respect to future usage under a license upon Cincinnati Bell providing notice that a third party may require an additional license or license fee.¹⁸ *AT&T v. Bell Atlantic* held, solely with respect to third party intellectual property rights, that Bell Atlantic must use best efforts to renegotiate existing intellectual property licenses as necessary.¹⁹ The court stopped short of establishing a duty to provide licensing terms identical to those in existing ILEC and equipment provider agreements, establishing only a best effort duty to negotiate.²⁰

The second Ohio decision serves as a reminder that, while the MCI petition focuses on access to unbundled network elements, other interconnection or resale of services also may be implicated. In fact, the provision in Southwestern Bell's Statement of Generally Available Terms quoted in MCI's petition expressly extends to agreements for interconnection and sale of services as well as those for access to unbundled network elements. Possible differences in the implications of various types of arrangements envisioned by the Telecom Act led the Commission, when soliciting comments on the issues presented by the MCI petition and another matter,²¹ to

16. See *In re AT&T Communications of the Southwest, Inc.*, Arbitration Award, Ark. Pub. Serv. Comm'n, Docket No. 96-395-U, Order No. 5, slip op. at ¶ 4 (Feb. 28, 1997).

17. See *In re MCI Telecomms. Corp.*, Case No. 97-152-TP-ARB (May 14, 1997).

18. See *In re* Petition of ICG Telecom Group, Inc., Arbitration Award, Pub. Util. Comm'n of Ohio, Case No. 97-92-TP-ARB, 1997 Ohio PUC LEXIS 753 (Oct. 2, 1997).

19. *AT&T Communications of Va., Inc. v. Bell Atlantic-Va.*, 197 F.3d 663, 670-71 (4th Cir. 1999).

20. See *id.*

21. Petition of Local Exchange Carrier Coalition for Reconsideration and Clarification of First Report and in the Implementation of the Local Competition Provi-

frame its questions to gain input specific to access to unbundled network elements and the sale of services. Specifically, it asked:

- (1) Does providing access to unbundled network elements implicate the intellectual property rights of equipment vendors or other third parties? Why or why not?
- (2) Does providing access to network elements other than access to vertical features of unbundled switches implicate intellectual property rights of equipment vendors or other third parties? Why or why not?
- (3) Does providing access to services for resale, in accordance with section 251, implicate intellectual property rights of equipment vendors or other third parties? Why or why not?
- (4) What are the potential burdens on requesting telecommunications carriers if they are required to independently negotiate licensing agreements with equipment vendors or other parties before obtaining access to unbundled network elements? Are there ways to eliminate or reduce those burdens on requesting telecommunications carriers?²²

The Commission further invited comment on "MCI's proposal that incumbent LECs bear the burden of negotiating any extension or augmentation of intellectual property rights that might be implicated in interconnection agreements."²³ Some, though far from all, of these questions were addressed in *AT&T v. Bell Atlantic*.

II. INTELLECTUAL PROPERTY AND CONTRACT LAW CONTEXT

A. *Introductory Observations*

Property and contract rights are quite different. The former are exclusive in character and good against the world. The latter are transactional and effective primarily between only parties to an agreement. The former are the subject matter of transactions. The latter express the terms of those deals, including those which describe what rights or interests in property are being exchanged

sions in the Telecommunications Act of 1996 (Sept. 30, 1996) (CC Docket No. 96-98).

22. Petition of MCI for Declaratory Ruling that New Entrants Need not Obtain Separate License or Right-to-Use Agreements Before Purchasing Unbundled Elements, 62 Fed. Reg. 13852 (Mar. 24, 1997).

23. *Id.*

for a stated price, other property or services, or the promise of some other act or forbearance. Even so, the distinction often is lost or hidden where the word "license" is indiscriminately used to describe an interest in or privilege to use property and to label or characterize the agreement that conveys that interest or grants that privilege. This is common, and indeed the foundation upon which the Uniform Computer Information Transactions Act rests.²⁴ The conflation is manifested in a Southwestern Bell Statement of Generally Available Terms²⁵ provision which speaks of "patent, copyright and trade secret rights . . . and contract rights of third parties" as not being transferred to a competing carrier by Southwestern Bell entering into an agreement pursuant to 47 U.S.C. § 251.²⁶ It also is evidenced in comments²⁷ and legal expert affidavits²⁸ filed in the MCI matter, and even in the Commission's notice soliciting those comments.²⁹ This tendency magnifies the difficulty of the issues presented to the Commission, and unduly complicates the Commission's shaping of whatever general course of action it chooses.

The subject matter introduced in the two following sections play back the interaction of intellectual property and contract in

24. See, e.g., David Nimmer et al., *The Metamorphosis of Contract into Expand*, 87 Cal. L. Rev. 17 (1999); David A. Rice, *Digital Information As Property and Product: U.C.C. Article 2B*, 22 U. Dayton L. Rev. 621 (1997).

25. 47 U.S.C. § 252(f) of the Telecom Act provides for Bell operating company filing with a state commission of "a statement of the terms and conditions that such company generally offers within that State to comply with the requirements of Section 251 . . . and the regulations thereunder and the standards applicable under this section." 47 U.S.C. § 252(f) (Supp. III 1997). Subsection (f) characterizes such a filing as a Statement of Generally Available Terms, generally known as SGATS.

26. The provision is quoted in *In re* Petition of MCI for Declaratory Ruling at 5 n.1 (Mar. 11, 1997) (CC Docket No. 96-98, File No. CCBPOL 97-4).

27. See Lucent Techs., Inc., Comments at 5, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Lucent Techs., Inc., Reply Comments at 6-7, *In re* MCI Petition for Declaratory Ruling (May 6, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Northern Telecom, Inc., Comments at 1, 6, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

28. Compare Affidavit of Roger M. Milgrim at 14, *In re* MCI Petition for Declaratory Ruling (Apr. 14, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4) (attachment to Comments submitted by SBC Communications) (tends to not differentiate), with Affidavit of Richard L. Bernacchi at 14, *In re* MCI Petition for Declaratory Ruling (May 5, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4) (attachment to Comments submitted by AT&T) (tends to differentiate).

29. See *supra* note 21.

quite different ways. Indeed, it is not necessarily obvious from the immediately following synopsis of the *DSC v. Pulse* litigation how and why the case reflects this. Its importance, as a paradigm as much as a judicial decision, is made quite apparent at a later point. In contrast, the “how and in what ways” is immediately obvious from the post-*DSC v. Pulse* discussion of the proposed Uniform Computer Information Transactions Act.

B. *DSC Communications v. Pulse Communications*

DSC v. Pulse tangentially bears upon the immediate issues. This is a product of its focus on the telecommunications equipment providers' risk exposure of providers' technology through third party access to their proprietary technology. The case involved a computer program used in digital loop carrier systems (“DLCs”), devices used to combine multiple analog telephone signals carried by traditional copper wires into a single high capacity digital fiber optic cable transmission. Functionally, use of a DLC obviates the need for a continuous copper wire connection between each subscriber's telephone and its LEC's central office. Copper wire connection is required only from each local subscriber to a DLC that serves the subscriber's locality.

The case involved DSC's Litespan 2000, a DLC unit connecting five hundred backplane interface slots with a single microprocessor, and DSC interface cards that plug into the slots. The Litespan 2000 design, including its software, accepts incompatible analog signaling protocol interface card—*e.g.*, plain old telephone service (POTS) and private branch exchange (PBX). The DLC converts these differing analog signals into digital signals that travel over high-bandwidth channels to the central exchange, and converts digital signals received from the central exchange into the voice-frequency analog signal required by a service subscriber. *DSC v. Pulse* dealt only with matters related to DSC's POTS-DI (POTS-download image) interface cards and software.

The interface cards each contain microprocessors and interface circuits. When a card is powered up, it downloads from the Litespan 2000 and temporarily stores in volatile memory a copy of the POTS-DI software necessary for signal conversion. This software and other DLC system software reside on the Litespan 2000. The DLC unit is easily, and principally, updated by changing the Litespan 2000 system, POTS-DI, and other card-downloadable software

rather than changing interface cards or other hardware components. This is not exclusive, however. A fact significant to DSC's trade secret claim was that, in one instance, interface card compatibility with DSC's updated POTS-DI software depended on DSC software ascertaining from the interface card boot code that the card would work properly with the latest software version.³⁰

The litigation resulted from Pulse manufacturing and marketing a POTS interface card that was compatible with DSC's Litespan 2000, and thus capable of utilizing DSC's Litespan-resident POTS-DI software and its updates. DSC sued Pulse, alleging in relevant part (1) contributory infringement of DSC's copyright in its software; (2) direct infringement of DSC's copyright in its software; and (3) misappropriation of DSC's trade secrets.³¹ DSC's central argument was that, by causing DSC's software to download onto its interface cards, Pulse infringed DSC's copyright in the software and also contributed to copyright infringement by Litespan 2000 users each time they used a Pulse interface card to download a copy of DSC's software. The trial court granted judgment for Pulse and dismissed DSC's claims on the ground that DSC failed to establish a *prima facie* case of direct infringement by Pulse or another, so that Pulse could not be found liable for either direct infringement or contribution to infringement by Litespan 2000 users.

The Court of Appeals noted that the infringement claim hinged upon an interpretation of 17 U.S.C. § 117 of the Copyright Act.³² It provides that "[I]t is not an infringement for the *owner* of a copy of a computer program to make or authorize the making of another copy or adaptation of that program provided: . . . that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner."³³ DSC claimed on appeal that, under the purchase transactions between DSC and its RBOC customers, the RBOCs were software copy licensees rather than owners. The court agreed that the trial court erred in deciding that the RBOCs were, as a matter of law, "owners" entitled to make a copy

30. See *DSC Communications, Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354, 1364 (Fed. Cir. 1999), *cert. denied*, 120 S. Ct. 286 (1999).

31. See *id.* at 1357.

32. See *id.* at 1359.

33. 17 U.S.C. § 117 (1994) (emphasis added).

for certain purposes under 17 U.S.C. § 117 of the Copyright Act.³⁴ In doing so, the court noted that original draft language of 17 U.S.C. § 117 contained the term "rightful possessor" instead of "owner,"³⁵ and concluded that change to "owner" in the enacted 17 U.S.C. § 117 shows "that Congress must have meant to require more than 'rightful possession' to trigger the 17 U.S.C. § 117 defense."³⁶ The court also took notice of *MAI Systems Corp. v. Peak Computer, Inc.*,³⁷ in which the Ninth Circuit Court of Appeals held that Peak was not an owner of software for purposes of 17 U.S.C. § 117 because Peak had licensed the software from MAI.³⁸ The court did not entirely accept the holding of the *MAI* court that all licensees are non-owners, but noted that a license could so restrict the ownership rights of a licensee that they would not be owners for the purpose of 17 U.S.C. § 117.³⁹ The court determined that the licensing agreements between the RBOCs and DSC made it clear that "DSC did not intend to convey any ownership rights in its copyright as part of the licensing agreements with the RBOCs."⁴⁰ What followed was a rejection of the trial court's reasoning that, because the RBOCs received their interest in the software through a lump sum payment and for an unlimited time, they were owners for the purposes of 17 U.S.C. § 117.⁴¹ The court held instead that, while the length of the right to possession and the type of payment are relevant to the analysis, they are not dispositive with respect to what the court characterized as the complex question of ownership.⁴²

The Federal Circuit therefore concluded that it "was improper for the [trial] court to conclude as a matter of law, that the RBOCs were 'owners' under 17 U.S.C. § 117 of the copies of DSC's software that were in their possession."⁴³ It therefore remanded DSC's direct and contributory infringement claims to the District Court for further proceedings. In contrast, it upheld the dismissal of DSC's

34. See *DSC*, 170 F.3d at 1360.

35. *Id.*

36. *Id.*

37. 991 F.2d 511 (9th Cir. 1993).

38. See *DSC*, 170 F.3d at 1360.

39. See *id.*

40. *Id.* at 1361.

41. See *id.* at 1362.

42. See *id.*

43. *Id.*

copyright infringement claims specific to Litespan 2000 systems that Pulsecom had purchased from a third party, concluding that Pulse was entitled under 17 U.S.C. § 117 to make copies of the Litespan 2000 software because the purchased systems were not subject to any licensing agreement restrictions.⁴⁴ Finally, it reversed the dismissal of DSC's state trade secret law claim under which DSC alleged that information disclosed to Pulse by DSC customers was a trade secret, and that the disclosure was obtained by improper means,⁴⁵ and also the dismissal of Pulse's claim that DSC had infringed a Pulse patent.⁴⁶

C. *AT&T v. Bell Atlantic*

In December 1999, the Fourth Circuit Court of Appeals dealt with an AT&T and MCI challenge to Virginia State Corporation Commission approval of an interconnection agreement on the ground that it did not meet the requirements of 47 U.S.C. § 251. Among the claims raised by MCI was that the third party intellectual property rights term fixed by state commission arbitration created a disparity between Bell Atlantic and CLEC access to local network element hardware and software used by Bell Atlantic under third party vendor licenses.⁴⁷ Specifically, MCI had argued before the state commission that Bell Atlantic must be required to renegotiate existing and negotiate future license agreements to provide for MCI use of any network hardware or software used by Bell Atlantic. The argument was rejected in favor of requiring Bell Atlantic to: (1) indemnify MCI against any third party intellectual property claims arising from its use of any later-acquired network hardware and software; (2) notify MCI of any threatened or pending intellectual property claims; and, (3) accord MCI the benefits of any intellectual property claim indemnities given to Bell Atlantic by its vendors to the extent that the terms of those indemnities permitted. The District Court rejected MCI's claim that the prescribed terms discriminated against MCI in violation of 47 U.S.C.

44. See *id.* at 1363. It is unclear what result the court would have reached if it had been shown that Pulse's transferor originally had acquired the Litespan 2000 unit and its software from DSC subject to a contractual term prohibiting further sale or other transfer of the software or the Litespan 2000.

45. See *id.* at 1364.

46. See *id.* at 1367-68.

47. See *AT&T Communications of Va., Inc. v. Bell Atlantic-Va.*, 197 F.3d 663, 670 (4th Cir. 1999).

§ 251(c)(3). The Court of Appeals reversed, and remanded to the District Court with direction that it require the Virginia State Corporation Commission to conduct further proceedings to assure that Bell Atlantic “must use its best efforts to renegotiate its intellectual property licenses on network hardware and software to allow use by MCI.”⁴⁸ It made clear that it did interpret the Telecom Act to require that Bell Atlantic actually renegotiate its existing license agreements, and left undisturbed those provisions of the Virginia State Corporation Commission order concerning licenses entered into by Bell Atlantic in the future. Specific to existing agreements, the court stated:

We recognize that negotiations might not be successful in every instance. If negotiations fail, we do not interpret § 251(c)(3) to impose an absolute duty to provide identical licensing terms in the case of existing agreements. . . . Still, there must be a duty to negotiate. Otherwise the Act’s goal—competition in local telephone markets—would be ignored.⁴⁹

It supported this by analogizing to Federal Communication Commission recognition in its First Report and Order that there might be “rare circumstances where it is technically infeasible for an incumbent LEC to provision access or elements that are equal-in-quality.”⁵⁰ With that, it reversed the lower court’s dismissal of MCI’s claim, directed it to enter summary judgment for MCI, grant MCI the relief specified by the Court of Appeals, and remand the issue to the Virginia State Corporation Commission.⁵¹

The disposition is striking on two counts. The first is analogizing bargaining failure to technological infeasibility. The latter imposes brittle constraints. The essence of the former is, in contrast, its flexibility. Second, it leaves unanswered the practical, financial, competitive, and Telecom Act policy implementation consequences of Bell Atlantic lack of success in negotiations. Among those which the court itself had identified in the paragraph immediately preceding the presentation of its disposition were that: (1) MCI use risked third party suit for infringement; (2) only Bell Atlantic had the information necessary to ascertain and assess this

48. *Id.*

49. *Id.* at 671.

50. *Id.* (quoting *In re Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, at ¶ 313 (Aug. 8, 1996) (CC Docket No. 96-98)).

51. *See id.*

risk; (3) MCI might have to limit its ability to compete by restricting itself to using only certain Bell Atlantic network hardware and software; and, (4) MCI might be required to incur greater costs in the provision of identical services as a result of having to independently negotiate use rights in exchange for additional fees.⁵² These are precisely the consequences which led MCI to file its petition with the Federal Communications Commission and to challenge in federal court the decision of the Virginia State Corporation Commission.

D. *UCITA: Proposed State Contract Law of Computer Information Use Licensing*

The courts to date consistently have applied Uniform Commercial Code sale of goods law in resolving computer software contract disputes.⁵³ Exceptions are extraordinarily rare, and consist primarily of cases in which the performance of services in the creation of a program to meet customer specifications was the principal object of the transaction.⁵⁴ Application of U.C.C. Article 2: Sales has been the norm even in hybrid transactions where the contracted performance is the design, creation, delivery and installation of an integrated hardware and software system.⁵⁵

Difficulties encountered by the courts have been greatest when the issue for determination has had both contract and intellectual property law dimensions. This is not unprecedented, especially in patent⁵⁶ and trade secret matters.⁵⁷ It became a frequent occur-

52. See *id.* at 670-71.

53. See *Hill v. Gateway 2000, Inc.* 105 F.3d 1147 (7th Cir. 1997) (applying Illinois and South Dakota law); *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (applying Wisconsin law); *Step-Saver Data Sys., Inc. v. Wyse Technology*, 939 F.2d 91 (3d Cir. 1991) (applying Pennsylvania and Georgia law); *RRX Indus., Inc. v. Lab-Con, Inc.*, 772 F.2d 543 (9th Cir. 1985) (applying California law); *M.A. Mortenson Co., Inc. v. Timberline Software Corp.*, 970 P.2d 803, 807 (Wash. Ct. App. 1999) (applying Washington law and citing cases).

54. See *Data Processing Servs., Inc. v. L.H. Smith Oil Corp.*, 492 N.E.2d 314 (Ind. Ct. App. 1986), *aff'd on rehearing*, 493 N.E.2d 1272 (Ind. Ct. App. 1986); *Micro-Managers, Inc. v. Gregory*, 434 N.W.2d 97 (Wis. Ct. App. 1988).

55. See *BMC Indus., Inc. v. Barth Indus., Inc.*, 160 F.3d 1322 (11th Cir. 1998); *Sierra Diesel Injection Serv., Inc. v. Burroughs Corp.*, 874 F.2d, 653 (9th Cir. 1989), *amended on denial of reh'g and reh'g on en banc*, 890 F.2d 108 (9th Cir. 1989); *USM Corp. v. Arthur D. Little Sys., Inc.*, 546 N.E.2d 888 (Mass. App. Ct. 1989); *Dreier Co. v. Unitronix Corp.*, 527 A.2d 875 (N.J. Super. Ct. App. Div. 1986).

56. See, e.g., *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979); *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

rence in copyright-related matters following general adoption of the practice of licensing computer program copy use as distinct from licensing rights comprised in the copyright of the copied original work. Through these cases there arose the seeming anomaly of courts generally applying sales contract law which governs transactions for the transfer of title from a seller to a buyer⁵⁸ while enforcing contractual use restrictions rooted in the formalism of licensor reservation of title to a copy as the legal means for regulating its use.⁵⁹ The consequence was presentation to the courts of such issues as whether a person who acquired a copy under a use license to which courts generally applied state sales contract law became the "owner" of that copy for purposes of the Copyright Act first sale doctrine⁶⁰ or a copy "owner" entitled to the benefit of Copyright Act authorization of certain uses of a computer program that otherwise would constitute infringement of its copyright.⁶¹

The Uniform Computer Information Transactions Act (UCITA), formerly draft Uniform Commercial Code Article 2B,⁶² responds by rejecting application of U.C.C. Article 2 in favor of creating a comprehensive and complex body of contract law governing computer information transactions. Despite diverse and often fierce opposition,⁶³ UCITA received National Conference of Com-

57. See, e.g., *Reed, Roberts Assoc. v. Strauman*, 353 N.E.2d 590 (N.Y. 1976).

58. See U.C.C. § 2-106(1) (1999) (defining the term "sale").

59. See, e.g., *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996); *National Car Rental Sys., Inc. v. Computer Assoc. Int'l, Inc.*, 991 F.2d 426 (8th Cir. 1993), *cert. denied*, 510 U.S. 861 (1993).

60. 17 U.S.C. § 109(a) (1994).

61. *Id.* at § 117.

62. The American Law Institute and the National Conference on Uniform State Laws agreed in Apr. 1999 that the project draft would not go forward as a jointly sponsored addition to the Uniform Commercial Code. The Uniform Law Commissioners then decided to move forward and present the draft for final approval by the Conference in July 1999 as a National Conference of Commissioners on Uniform State Laws uniform law (NCCUSL), and restyled the draft as the Uniform Computer Information Transactions Act. NCCUSL to Promulgate Free-standing Uniform Computer Information Transactions Act. The American Law Institute and National Conference of Commissioners on Uniform State Laws, *ALI and NCCUSL Announce that Legal Rules for Computer Information Will not be Part of UCC* (last modified Apr. 7, 1999) <<http://www.nccusl.org/pressrel/2brel.html>>.

63. UCITA's on-the-record opponents include the Motion Picture Association of America, National Association of Broadcasters, Consumers Union, Consumer Federation of America, Society of Information Management, U.S. Public Interest Research Group, American Library Association, American Association of Law Libraries, Association of Research Libraries, Medical Library Association, Associa-

missioners on Uniform State Laws (ULC) final approval as a ULC uniform state law in July 1999. A combination of strong support from software and electronic database publishers and an unwavering commitment to UCITA on the part of the ULC leadership produced this outcome. UCITA has since been introduced for enactment as state law in several states identified as ones most likely to enact UCITA even if it is strongly contested in state capitol hearing rooms and corridors by its longstanding principal opponents.⁶⁴

Contract and its terms are UCITA's subjects. Among its provisions is one which, subject to one limited consumer contract exception, declares that contracting parties may contractually choose or designate the law governing their transaction.⁶⁵ It can be expected that the law chosen by standard form contract terms and bargained for inclusion in other contracts will be that of a UCITA-enacting state. Additionally, agreed scope coordination language for UCITA and revision of U.C.C. Article 2 would revise the latter to state "This article applies to transactions in goods, but does not apply to computer information."⁶⁶ Where a state legislature adds the provision and its accompanying UCITA-mirroring definition of "computer information" to the state's U.C.C. Article 2, but does not

tion for Computing Machinery, several software developers groups, software resellers, and a large number of intellectual property law and commercial contract law professors. Those expressing strong reservations or concerns include the Federal Trade Commission bureaus, IEEE, Digital Future Coalition, and National Retail Federation.

Those urging that UCITA be tabled for further consideration and brought back for final action at a future date include at least one-half of the Attorneys General of the several states and the American Committee on Interoperable Systems. See Padraic Cassidy, *Attorneys General Object to Law Regulating Online Transactions*, New Jersey L.J. (Dec. 21, 1999) (visited Jan. 2, 2000) <<http://www.njlawjournal.com>>.

64. The earliest introductions, or at least the earliest state legislative hearings, appear to have been in Oklahoma and Virginia, the former being the home state of the Executive director of the National Conference of Commissioners on Uniform State Laws. Professor Frederick H. Miller, and the latter the home state of the Chair of the UCITA Drafting Committee, Carlyle C. Ring, Jr. See also Carol A. Kunze, *A Guide to the Proposed Uniform Computer Information Transactions Act* (last modified Dec. 14, 1999) <<http://www.2bguide.com>> (following ongoing state legislative actions regarding UCITA).

65. See UCITA § 109(a) (1999).

66. Memorandum from the Chairpersons and Reporters of the U.C.C. Article 2 and UCITA Drafting Committees to Members of the U.C.C. Article 2 and UCITA Drafting Committees (June 29, 1999) (visited Nov. 22, 1999) <<http://www.law.upenn.edu/bll/ulc/ucita/2103mfin.htm>>.

enact UCITA, the effect will be to override case law that directly applies U.C.C. Article 2. Courts will be left to choose between applying it by analogy, applying general contract law, or looking to the National Conference of Commissioners on Uniform State Laws (NCCUSL)-approved UCITA for guidance. The latter is jurisprudentially unsound,⁶⁷ but this does not make UCITA influence altogether improbable.

Legislating the enforceability of contractual restrictions on the use and transfer of computer program and information copies as a matter of state law is a principal aim of UCITA. Its scope of application is broad, and extendable by agreement to cover mixed transactions in which the subject matter includes both equipment and computer information. With respect to scope, it broadly defines "computer information" to include software, inclusive of a computer program and its informational content,⁶⁸ and "information in electronic form that is obtained from or through the use of a computer."⁶⁹ Clearly included are a telecommunication switch computer program, informational content of the program, and the contents of ILECs' customer and other databases in electronic form. Concerning the latter, validation of information content access and use restrictions builds upon the use licensing model popularized by software publishers as a means for creating database protection through contract. This is, of course, an antidote for judicial determination that information compilations that do not meet the originality criterion qualify for even the limited, or "thin," copyright protection given to factual works.⁷⁰ Equally, this contract-

67. Existing law of the state clearly is more authoritative than a proposed new uniform legislation which the state's legislature has not enacted. Although direct application of U.C.C. Article 2 would be excluded, a court still might draw upon its principles where particularly relevant to the task of fitting a state's general contract law to computer information transactions.

68. See UCITA § 102(a)(64) (1999). "Computer program" is separately defined in terms that echo the Copyright Act definition of that term: ". . . a set of statements or instructions to be used directly or indirectly in a computer to bring about a certain result." *Id.* at § 102(a)(13).

69. *Id.* at § 102(a)(11). Hereinafter, "electronic information" is used in this paper as the equivalent of the statutory language "information in electronic form that is obtained from or through the use of a computer."

70. 17 U.S.C. § 102(b) (1994).

based protection answers the frequent lack of information content eligibility for protection under state trade secret law.⁷¹

In addition to including far more than computer program copies, UCITA reaches a far broader range of transactions than the archetypal shrink-wrap, click-wrap, site, and multi-user software licenses to which it originally was drawn. It covers access agreements⁷² and agreement to transfer a copy of or rights in a computer program or its informational content, or a copy of or rights in electronic information.⁷³ This includes a sale of a copy or an assignment of informational rights,⁷⁴ and the assignment or other transfer of a contractual interest in computer information.⁷⁵ This is emphasized by defining "license"⁷⁶ to include the sale of a copy so long as a contract term restricts use of the copy, its transfer, or the transfer of contract rights.⁷⁷ These intricacies are captured in

71. Among other things, the content must be something that is not generally known to, and not readily ascertainable by, others who can obtain economic value from its use or disclosure. See Uniform Trade Secrets Act § 1(4)(i) (1985).

72. "Access contract" is defined in UCITA § 102(a)(1) but the definition of "computer information transaction" does not expressly include access contracts. Their inclusion clearly is intended and was express prior to relatively recent re-statement of statutory scope and concomitant introduction of the term "computer information transaction." Reporter's Note 2c to UCITA § 102 directly states that contracts for access to information are within UCITA, and this can be statutorily grounded by tracing terms: the § 102(a)(12) definition of "computer information transaction" includes a "license" and the § 102(a)(42) definition of "license" includes and "access contract" which § 102(a)(1) states is "a contract to obtain electronically access to, or information from, an information processing system of another . . . or the equivalent of such access."

73. UCITA § 102(a)(12) defines "computer information transaction" as "an agreement and the performance of that agreement to create, modify, transfer, or license computer information or informational rights in computer information."

74. UCITA § 102(a)(69)(B) defines "transfer" to include, with respect to computer information—as distinguished from contractual rights—"sale or lease of a copy as well as an assignment of informational rights." There is latent in this a lesson about the intricacy of, and potential surprises lurking within, UCITA. The "transfer" definition sweeps into UCITA all contracts for the transfer of rights in information independent of K, and (43) defines "licensee" as a transferee in a license or other agreement.

75. See UCITA § 102(a)(69)(A) (1999).

76. "License" is generally defined to mean "a contract that authorizes access to or use of information on express terms that limit contractual rights or authorized uses, prohibit some uses, or convey less than all informational rights, expressly limit some uses, or expressly, prohibit some uses expire or uses granted, expressly prohibits some uses, or expressly grants less than all rights in the information." *Id.* at § 102(a)(42).

77. The express language which accomplishes this states "A contract may be a license whether or not the transferee has title to a licensed copy." *Id.*

the definition of "licensee"⁷⁸ and "licensor"⁷⁹ as a transferee or transferor, respectively, in "a license or other agreement" governed by the statute.⁸⁰

The significance of UCITA for telecommunications hardware, software, database, and services contracts is readily apparent. It clearly reaches the contracts between ILECs and their equipment and software providers, the contracts that are at the heart of the MCI proceeding. In addition, there can be no doubt that ILEC and CLEC network element access, telecommunication services resale, and other terms of network interconnection agreements come within the scope of UCITA. The definition of "access contract" itself reaches all in at least some respects. An agreement between an ILEC and a CLEC that does not fit the more inclusive definition of "license"—a contract which authorizes access to or use of information or informational rights subject to some express limitation—is virtually inconceivable.

With respect to mixed transactions, UCITA governs the whole if the primary subject matter of a transaction is computer information,⁸¹ but only with respect to that part of a transaction specific to computer information if computer information is not the primary subject matter.⁸² As a matter of preference, or as means of resolving uncertainty as to what constitutes the primary subject matter, contracting parties may contractually elect that UCITA govern all aspects of any transaction in which computer information is material part of the subject matter.⁸³ The high incidence of mixed hardware and computer information transactions⁸⁴ in the telecommunications industry makes this election, or opt-in, provision one of particular significance to its members.

Under UCITA, terms made available after payment, commencement of use or performance, or some other event that most would consider the point of, if not after, contract formation are en-

78. *Id.* at § 102(a)(43).

79. *Id.* at § 102(a)(44).

80. Parties are therefore referred to throughout UCITA as licensors and licensees except as the context otherwise requires, *e.g.*, transferee, transferor, financier.

81. *See id.* at § 103(b)(1).

82. *See id.* at § 103(b)(2).

83. *See id.* at § 103(e).

84. "Computer information" is used here as it is defined in UCITA to include electronic information, not in its more limited meaning of computer program or software.

forceable as contract terms.⁸⁵ This includes a term that elects, or opts-into, UCITA as the law governing contract formation, interpretation, performance, enforcement, and remedies as well as any term that defines the scope of a computer information license.⁸⁶ The principal exceptions are narrow and can be established only through later litigation in which a court determines that a particular term is unconscionable,⁸⁷ contrary to fundamental public policy,⁸⁸ or induced by fraud.⁸⁹ Although the primary original aim was to make standard form terms enforceable, the section and its resurrection of the so-called "last shot" rule applies universally. It is not generally limited by UCITA's parol evidence rule which sets forth the traditional exclusion of evidence of a prior or contemporaneous oral agreement⁹⁰ and permits introduction of evidence of consistent additional terms.⁹¹ It is arguable that evidence of post-commitment terms could not be introduced in a case in which a court determined that a prior record was intended by the parties as a complete and exclusive statement of the terms of their agreement,⁹² but even this is uncertain.⁹³

85. See UCITA § 210(b) (1999).

86. "Scope" is defined in UCITA § 102(a)(61) in terms that echo its usage in intellectual property law. The definition states:

"Scope", with respect to a license, means terms defining:

(A) the licensed copies, information, or informational rights involved;

(B) the use or access authorized, prohibited, or controlled; and the duration of the license.

87. See UCITA § 111 (1999); UCITA § 210, Reporter's Note 2 (1999).

88. See UCITA § 105(b) (1999).

89. See UCITA § 210, Reporter's Note 2 (1999), which implicitly references UCITA § 104(a) and its preservation of the law of fraud as a generally applicable supplemental principle of law and equity.

90. See UCITA § 301 (1999).

91. See *id.* at § 301(b).

92. See *id.*

93. The predicted, and perhaps successful, answer to this is the relevant record is the one to which UCITA § 210(b) expressly refers—the one made available after payment or commencement of use or performance. The contracting process antidote is to expressly state in the parties' agreement that the particular record constitutes a complete and exclusive statement of terms upon which the parties have agreed, and that it excludes any additional or different terms that are contained in a record made available at a later date unless the term is agreed to by an authenticated record in accordance with the contract modification rule of UCITA § 303(b). This is, of course, the opposite of excluding any evidence of a prior or contemporaneous agreement, the traditional aim of a merger or integration clause, and is more akin to a contractual term which requires express written assent to any modification of originally agreed terms. See U.C.C. § 2-209(2) (1995); U.C.C. § 2A-208(2) (1995).

Terms of a contract governed by UCITA are enforceable against third parties, not just the licensee. This is not self-evident.⁹⁴ The effect is indirectly accomplished by two rules. The first rejects the good faith purchaser protection that is a cornerstone of sale of goods and general contract law. It declares that a transferee in a transfer that is otherwise effective under UCITA takes subject to the original license terms.⁹⁵ The second limits the transferability of a license by making a prohibited transfer not just a breach, but wholly ineffective as a transfer of rights. Specifically, section 506(a) provides that a transferee acquires no interest in information, copies, or the contractual or informational rights of the licensee unless the transfer is one which is made effective under the rules of section 503 of the statute.⁹⁶ The intention of the draft in defining "transfer" so as to exclude an agreement to exercise rights through a sublicensee or delegate⁹⁷ is not entirely clear, but it would be inconsistent with the thrust of UCITA to consider that the provision would shelter an agreement under which an ILEC made a CLEC its sublicensee.

While section 503 generally states that a contractual interest is transferable, its principal object is to make clear that a contractual interest is not transferable and that any purported transfer is wholly ineffective in the following cases: a contract term prohibits transfer;⁹⁸ transfer is prohibited by other law;⁹⁹ transfer would materially change the duty of the other party; transfer would materially increase the burden or risk imposed on the other party; or transfer would materially impair the other party's property or its likelihood or expectation of obtaining return performance.¹⁰⁰ In practice, contractual prohibition or restriction of transfer is common, even in standard form shrinkwrap licenses.¹⁰¹ In addition,

94. In contrast, early drafts made the point clear. They did so by following the direct approach of U.C.C. § 9-201, which expressly states that "a security agreement is effective according to its terms between the parties, against purchasers of the collateral and against creditors." U.C.C. § 9-201 (1995).

95. See UCITA § 506(b) (1999).

96. See *id.* at § 506(a).

97. *Id.* at § 102(a)(69)(A).

98. See *id.* at § 503(b).

99. See *id.* at § 503(a)(1).

100. See *id.* at § 503(a)(2).

101. Notably, a motion to make contractual prohibitions against transfer in mass market transactions unenforceable was defeated by a narrow margin during the debate leading up to final approval of UCITA by the National Conference of

Reporter's Notes to the draft presented to the Uniform Law Commissioners for final approval in July 1999 strongly guide counsel and courts to conclude that UCITA licenses generally are not transferable even in the absence of a contractual prohibition. One intimates that federal copyright and patent law make all UCITA licenses nontransferable as a matter of law.¹⁰² Another strongly suggests that trade secret law and policy prohibit licensee transfer of a copy of computer information that embodies a licensor trade secret, and preclude transferee acquisition of any right to use the protected subject matter.¹⁰³

Federal patent and copyright law in fact apply only to licenses of rights created by federal law, and cognate rules crafted by the courts in adjudicating disputes arising under those statutes govern only licenses of those rights. Further, it is well established that state contract law rules govern the formation, interpretation and effect of copyright and patent right licenses subject only to two exceptions. The first is where the statute itself establishes a special rule.¹⁰⁴ The second, as in the cases cited by the Reporter, is where applying an otherwise applicable rule of state contract law would undercut or conflict with a substantive policy expressed in or underlying the federal statute.

The cases relied upon by the Reporter expressly state that they adopt a rule different from state contract law, and acknowledge that this is constitutionally permitted under *Erie v. Tompkins*¹⁰⁵ only in special circumstances, and even then subject to narrow limits.¹⁰⁶ Concerning the particular circumstances, the

Commissioners of State Law at its July 1999 Annual Meeting. "Mass market transaction" is a limited category consisting of a consumer contract and certain other, but not all, standard form retail market end-user licenses. *Id.* at § 102(a)(46).

102. See Uniform Law Commission, *Draft Comments to Uniform Computer Information Transactions Act* (last modified Oct. 15, 1999) <<http://www.law.upenn.edu/library/ulc/ucita/cita10cm.htm>>.

103. See UCITA § 503, Reporter's Note 3a (1999).

104. A prominent example is set forth in 17 U.S.C. § 204(a) which makes a signed writing a requisite for valid transfer of copyright ownership. See, e.g., 17 U.S.C. § 204(a) (1988) (making a signed writing a requisite for valid transfer of copyright ownership).

105. 304 U.S. 64 (1938).

106. Patent cases: *CFLC, Inc. v. Everex Inc.*, 89 F.3d 673, 677, 678 (9th Cir. 1996) (citing *McCoy v. Mitsoboshi Cutlery, Inc.*, 67 F.3d 917, 920 (Fed. Cir. 1995)); *Unarco Indus. v. Kelly Co.*, 465 F.2d 1303, 1306 (7th Cir. 1972), cert. denied, 410 U.S. 929 (1973); *In re Alttech Plastics, Inc.*, 71 B.R. 686, 689 (W.D. Tenn. 1987).

courts determined that judicial creation of a substantive federal common law rule was required in order to avoid a conflict between the otherwise applicable state contract law and the federal law and its underlying policy expressed in the patent and copyright statutes.¹⁰⁷ Concerning scope of application, the leading decisions emphasize that the *Erie* doctrine dictates that the federal common law rule supersedes state contract law only to the extent necessary to resolve the identified conflict.¹⁰⁸ The twin points strictly limit the prescriptive or preemptive effect of *Everex* and like decisions. It is UCITA alone, not federal law, that changes state law governing most transactions within UCITA's scope.

The design of the Reporter and observers who strongly supported UCITA's covert rejection of freedom to alienate property and contract rights, one of the basic tenets of modern commercial contract and competition law, has significant consequences. Sticking solely to UCITA rejection of this tenet is inconsistent with a fundamental UCITA rule which otherwise makes *Everex* inapplicable to the vast majority of UCITA transactions.¹⁰⁹ Moreover, not every contract that expressly transfers informational rights in computer information meets the criteria for application of the federal common law rule. *Everex* has no direct application to contracts involving transfer of informational rights created by state law, and the constitutional effect of *Erie* is to liberate transfer of informational rights created by state law from the dictate of *Everex's* limited federal common law departure from otherwise governing state contract law.

The general significance is to reserve substantial licensor control over further, or downstream, transfer of copies. Under UCITA, for example, Pulse Communications would have acquired no pos-

Copyright cases: *In re Patient Education Media*, 210 B.R. 237, 242 (S.D.N.Y. 1997) (citing *Bourne v. Walt Disney Co.*, 68 F.3d 621, 631 (2d Cir. 1995), *cert. denied*, 517 U.S. 1240 (1996)).

107. See *Everex*, 89 F.3d at 679.

108. See *id.* at 678-79 (criticizing opinion in *Unarco Indus. v. Kelly Co.*, 465 F.2d 1303 (7th Cir. 1972), *cert. denied*, 410 U.S. 929 (1973), for not taking care to make clear that application of a federal common law rule is limited, and that state contract law otherwise governs construction of patent licenses).

109. UCITA § 501(b) states that transfer of a copy does not convey to a licensee the ownership of informational rights, and UCITA defines "informational rights" to include those created by federal patent and copyright law. *Everex* therefore is irrelevant unless a copy license contains an express, or necessarily implied, grant of informational right created by patent or copyright law.

sessory or use rights in the software it acquired from a third party that was subject to a contractual prohibition against transfer. Use by Pulse therefore would have been unauthorized, and any copy made in the course of use would infringe DSC's copyright. More specifically, UCITA rejection of the principle of free alienability is elsewhere expressed in its rule that contractual use restrictions are enforceable against third as well as between immediate parties.¹¹⁰ Under this rule, use restrictions in contracts between ILECs and telecommunication equipment manufacturers' would be enforceable against CLECs. In general, this is of no moment in terms of the Telecommunications Act of 1996. It becomes so, however, if any existing or future contractual use restrictions are susceptible of an interpretation that excludes use of an equipment manufacturer's computer information in a manner necessary to provide a CLEC with interconnection, access to and use of unbundled network elements, or local exchange services for purposes of resale. The Virginia State Corporation Commission order at issue in *AT&T v. Bell Atlantic* defends against problems being created by right-to-use restrictions in future ILEC contracts by requiring Bell Atlantic to indemnify against third party intellectual property claims arising from any CLEC use of network equipment or software acquired by Bell Atlantic in the future.¹¹¹ The term nevertheless is limited to intellectual property claims, and does not appear to reach related but purely contractual restriction-of-use claims.

With respect to trade secret law, the Drafting Committee's November 1998 vote reflected agreement that liability for trade secret disclosure and the third party effect the transfer of a copy of computer information that embodies a trade secret should continue to be governed by state trade secret law, not UCITA. The author elsewhere has shown that, in reality, the rejected rule indirectly amended the Uniform Trade Secrets Act—one of the Uniform Law Commissioners' most widely adopted uniform laws—both as to licensee-transferor liability and rights acquired by an innocent

110. See UCITA §§ 504 (b)(1), 506 (a) (1999).

111. *AT&T Communications of Va., Inc. v. Bell Atlantic-Va.*, 197 F.3d 663, 670 (4th Cir. 1999).

transferee.¹¹² Not unlike what previously happened after the Drafting Committee affirmatively rejected a draft rule making all nonexclusive copy use licenses nontransferable, the voted-out trade secret nontransferability rule was reinserted in different guise. In this instance, the Reporter inserted a short and bland new phrase into some standard but dense text borrowed from U.C.C. Articles 2 and 2A,¹¹³ kept the prior Reporter's Note general reference to those U.C.C. articles as the uniform law source, and—as unflagged as the change in text—created a new Reporter's Note to misinstruct judges and lawyers that trade secret law generally makes transfers of computer information copies and rights unlawful and wholly ineffective.¹¹⁴

The significance in the immediate context includes that it could be argued on the *DSC v. Pulse* facts that Pulse acquired no rights in the equipment and software that it acquired from a third party because it embodied DSC trade secrets.¹¹⁵ Secondarily, the slipped-in provision and Official Comment lend an aura of credibility to the ILEC position even though, as explained below, neither sale of services nor provision of access to unbundled network elements entails disclosure of equipment manufacturers' trade secrets or breaches confidentiality.

Contractual use restrictions present perhaps the most significant question. Although none detailed in the Milgrim analysis or identified in ILEC comments appear to impair the right to provide access to and use of unbundled network elements, it is important to note that the Milgrim analysis primarily focused on terms specific to intellectual property rights. Similarly, interconnection agreement terms set by state commission arbitration specifically deal only with equipment manufacturers' intellectual property rights.¹¹⁶ Noting this underscores the previously identified difference between property and contract rights. It is the latter that fea-

112. See David A. Rice, *License with Contract and Precedent: Publisher-Licensor Protection Consequences and the Rationale Offered for the Nontransferability of Licenses Under Article 2B*, 13 Berkeley Tech. L.J. 1239, 1248-51 (1998).

113. UCITA § 503(a)(2) (1999).

114. See UCITA § 503, Reporter's Note 3a (1999).

115. It is to be recalled that the primary purpose for which Pulse acquired the Litespan 2000 was to reverse engineer the unit, and its computer program, in order to ascertain how to make POTS-DI interface cards that would work with the Litespan 2000 computer program.

116. See, e.g., *AT&T*, 197 F.3d at 670.

tured most prominently, but were not specifically described, in equipment manufacturers' filed comments.

III. SYNOPSIS OF COMMENTS AND POSITIONS ON MCI PETITION

A. *Range of Views*

Equipment providers' Comments express support for the Telecom Act and the Commission objective of promoting competition, and specifically making competition rather than monopoly the norm in the local telecommunications services market.¹¹⁷ Simultaneously, they strongly assert the importance of their rights under patent, copyright and trade secret law, and of their contractual regulation of telecommunications equipment use.¹¹⁸ They admonish that the Commission lacks legal authority to compromise those rights in any way.¹¹⁹ ILEC comments amplify these points. The existence and potential breach of confidentiality obligations and contractual right-to-use limitations are given particular emphasis as impediments to providing competing local exchange carrier access to and use of unbundled network elements.¹²⁰ Further, it is proffered that a CLEC's combination of unbundled network elements may not be covered by the ILEC's license, or perhaps may infringe the patent of a total stranger. CLECs, it is urged, should bear the cost of managing the resulting increase in local exchange carriers' liability risks—through negotiation and payment for any additional license or right-to-use-agreement that might be required—and indemnifying ILECs for any losses that result from the failure to adequately contract to the risk.

The CLEC position remains that mere access to and use of network elements does not implicate ILEC confidentiality obligations since no trade secret disclosure results, and ordinarily will cause equipment providers' technology to be used only in the manner for

117. See Lucent Techs., Inc., Comments at 5, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Northern Telecom, Inc., Comments at 5, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

118. See *id.*

119. See Lucent Techs., Inc., Comments at 2, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Lucent Techs., Inc., Reply Comments at 1-2, *In re* MCI Petition for Declaratory Ruling (May 6, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

120. See SBC Communications, Inc., Comments at 3-13, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

which it already is permitted. More generally, the MCI petition and CLEC comments contend that ILEC provision of network facilities access ordinarily would not implicate third party intellectual property rights.¹²¹ They argue that neither purchase nor transfer of control of elements is entailed in the CLEC purchase of access to and use of ILEC network elements any more than it is involved in the purchase of ILEC subscriber services. All that is involved is ILEC provision of access to and use of equipment providers' technology to perform for a CLEC exactly what it does for an ILEC. It therefore is argued that infringement of equipment providers' patents and copyrights is unlikely.

The CLEC position resonates with equipment providers' emphasis of functional use, not physical control or access, as critical to whether a new or modified license, and perhaps additional license fees, will be necessary. ILEC retention of control in fact underlies a general consensus that the sale of services ordinarily will not implicate manufacturers' intellectual property rights,¹²² but may implicate contractual use restrictions. Use initiation, however, is precisely what right-to-use contractual restrictions concern, and equipment providers' comments make clear that access which calls upon network elements may be regarded in some instances as use which exceeds that authorized by contract.¹²³

121. See *In re* Petition of MCI for Declaratory Ruling at 6-7 (Mar. 11, 1997) (CC Docket No. 96-98, File No. CCBPOL 97-4); MCI Reply Comments at 1-6; *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); AT&T, Comments at 2, 18-26, *In re* MCI Petition for Declaratory Ruling (Apr. 15 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); AT&T Reply Comments at 16-20, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4). See also Affidavit of Richard L. Bernacchi at ¶¶ 8-11, *In re* MCI Petition for Declaratory Ruling at 14 (May 5, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4) (attachment to Comments submitted by AT&T).

122. See Lucent Techs., Inc., Reply Comments at 8, *In re* MCI Petition for Declaratory Ruling (May 6, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Northern Telecom, Inc., Comments at 6, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); SBC Communications, Inc., Comments at 14-15, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

123. See Bellcore Communications Research, Inc., Comments at 2, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Northern Telecom, Inc., Comments at 6, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Lucent Techs., Inc., Reply Comments at 9, *In re* MCI Petition for Declaratory Ruling (May 6, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4). As a general matter,

The CLEC analysis implicitly limits the concern primarily, though not exclusively, to contractual right-to-use restrictions of the kind which are the principal subject matter of UCITA. The most obvious exception, as the plaintiff argued in *DSC v. Pulse*, concerns the loading of a copy of software into volatile memory for CLEC rather than a licensed ILEC's use. The common argument, adopted by ILECs and suggested by equipment providers, is that this makes a copy of a copyright-protected work which may not be contractually or impliedly authorized by the owner of copyright.¹²⁴ Even this, however, is contract-based and involves the increasingly common use of contract to leverage copyright ownership into patent-like regulation of applied or functional use.¹²⁵

The CLEC and ILEC positions are unchanged on the question of who should be responsible for obtaining, and negotiating, any new agreements that in fact may be required. Equipment providers at least appear to lack strong views on this point. One, for example, expressed readiness to assist ILEC customers in identifying instances in which CLEC access to or use of unbundled elements requires either ILEC negotiation of a license modification or CLEC—or ILEC—acquisition of a new license.¹²⁶ Neutrality also best describes the equipment provider position on whether ILECs or CLECs should be responsible for negotiating any new license, or payment of any required new license fees.¹²⁷ On the latter point, ILECs continue to characterize the additional costs as traceable solely to CLEC access and use, and therefore chargeable solely to

the equipment manufacture's comments adopted the view that actual use of software rather than CLEC's physical control or "hands on" that software was the focus of concern.

124. The point was made specifically by ILEC rather than equipment manufacturer Comments. See SBC Communications, Inc., Comments at 14-15, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4). Manufacturers emphasized the relationship between intellectual property rights and contract right-to-use terms without venturing the stronger claim that each CLEC-initiated loading of software made a copy, and therefore presented a potential instance of computer program copyright infringement.

125. See Nimmer, *supra* note 24; Rice, *supra* note 24.

126. See Lucent Techs., Inc., Reply Comments at 12-13, *In re MCI Petition for Declaratory Ruling* (May 6, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

127. See Lucent Techs., Inc., Reply Comments at 12, *In re MCI Petition for Declaratory Ruling* (May 6, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4) (through emphasizing readiness to work with ILECS); Northern Telecom, Inc., Comments at 2, 8, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

the CLEC.¹²⁸ CLECs, in contrast, contend that compliance with 47 U.S.C. § 251 requires that the costs be treated as network costs to be shared among all users of the network elements on a nondiscriminatory basis.¹²⁹

B. Third Party Intellectual Property Rights Not a Substantial Factor

Intellectual property law and intellectual property rights licenses do not present a substantial problem, at least not one of the magnitude claimed by ILECs. This is recognized, though not wholly conceded, in various equipment manufacturers' comments. The focus in those comments is more on contractual use restrictions and their enforceability. This section briefly explains why third party intellectual property rights are of limited significance. The following section focuses primarily on the greater significance of third party licensors' contractual restriction of computer program and electronic database copy use.

State trade secret law is of little relevance. Neither sale of retail services to a CLEC nor CLEC access to the functions performed by unbundled or vertical network elements discloses the informational content of third party computer programs or electronic databases. Equipment manufacturers' comments on the MCI petition acknowledge this, and deny the contrary contention of ILECs that nondisclosure obligations will be violated by resale of

128. See Ameritech, Inc., Comments at 6, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Bell Atlantic and NYNEX Telephone Cos., Comments at 4, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); GTE Serv. Corp., Comments at 7-9, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); SBC Communications, Inc., Comments at 16-27, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); SBC Communications, Inc., Reply Comments at 7-18, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

129. See AT&T, Comments at 10-16, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); MCI, Reply Comments at 6-8, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Telecommunications Resellers Ass'n, Comments at 7-8, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); LCI Telecom Corp., Comments at 6-10, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Sprint Corp., Comments at 6-8, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

services or provision of access.¹³⁰ Trade secret thus serves only as potential leverage for inclusion of an independent contract term that expressly prohibits or restricts use by or for the benefit of a CLEC. This is more likely to be at the behest of an ILEC than an equipment manufacturer.

Equipment manufacturer patents presumably create a greater potential problem for 47 U.S.C. § 251 implementation. A telecommunications equipment or software patent gives its owner the exclusive right to use or sell that which the patent claims cover,¹³¹ and some case law indicates that this supports enforcement of contractual post-sale use restrictions by way of an action for patent infringement.¹³² Factually, however, the Milgrim analysis of numerous contracts between SBC and telecommunication equipment manufacturers demonstrates that manufacturer patents present little or no problem. His findings indicate that, aside from a confidentiality term, the most common contract term dealing with intellectual property rights is one which states that the manufacturer grants no patent license to the ILEC.¹³³ This strongly indicates that ordinary use of unbundled network elements does not infringe any patent because any use exclusively reserved to a manufacturer by its patent would have to be licensed in order for an ILEC not to be liable for infringement. A contract term expressly denying the grant of any such license means that none is required, and this makes it implausible that a CLEC would be required to secure a patent license. A patent license is a patent owner's covenant to not sue for use that is otherwise exclusive to the patent owner.¹³⁴ If ordinary use by an ILEC does not require such a license, it follows

130. Equipment manufacturers emphasized resale of ILEC services, in particular, as presenting no concern about potential disclosure of proprietary information disclosure, and more generally indicated that continuation of ILEC physical control of software otherwise minimized any risk associated with use of unbundled network elements. See Lucent Techs., Inc., Reply Comments at 8, *In re* MCI Petition for Declaratory Ruling (May 6, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Northern Telecom, Inc., Comments at 8, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

131. See 35 U.S.C. § 154(a)(1) (1994).

132. See *B. Braun Medical, Inc. v. Abbott Lab.*, 124 F.3d 1419 (Fed. Cir. 1997); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

133. See Affidavit of Roger M. Milgrim at ¶ 20, *In re* MCI Petition for Declaratory Ruling at 14 (Apr. 14, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4) (attachment to Comments submitted by SBC Communications).

134. See *General Talking Pictures Corp. v. Western Elec. Co.*, 304 U.S. 175, 181 (1938), *aff'd on reh'g*, 305 U.S. 124 (1938).

that the same use by a CLEC similarly requires no shield against a manufacturer's action for infringement.

Finally, an equipment manufacturer's copyright in a computer program provides only limited protection against unauthorized reproduction or distribution of program copies,¹³⁵ and no protection of electronic database content.¹³⁶ Further, the protection of copyright does not extend to that which properly is the subject matter of computer program patent or trade secret law protection.¹³⁷ In all other respects, however, copyright subsists in every computer program. This is what makes the ILEC position apparently stronger in the case of copyrighted computer program components of local exchange equipment.

Any loading of a computer program or code into a storage medium to execute an unbundled network element function reproduces the original.¹³⁸ This technically infringes copyright unless the copyright owner expressly or impliedly authorizes it.¹³⁹ Such authority is necessarily implied if the computer program is an integrated component of a single hardware and software product acquired in an equipment sale or lease transaction. The matter is less clear if the computer program is provided subject to a separate copy use license, the terms of which expressly authorize only certain uses or expressly prohibit or restrict specified uses of the copy. It has been held that contrary use is a breach of contract,¹⁴⁰ and that a copy made in the course of such use infringes the copyright.¹⁴¹ On the other hand, the Federal Circuit in *DSC v. Pulse*

135. See 17 U.S.C. § 106(1), (3) (1994).

136. See *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340 (1991) (factual content wholly unprotected; compilation that meets constitutional standard of originality is entitled to limited, or "thin", copyright protection).

137. See 17 U.S.C. § 102(b) (1994); *Lotus Dev. Corp. v. Borland Int'l, Inc.*, 49 F.3d 807 (1st Cir. 1995), *aff'd by an equally divided court*, 516 U.S. 233 (1996) (spreadsheet program menu command structure a method of operation, and therefore not protected by program copyright); *Engineering Dynamics v. Structural Software, Inc.*, 46 F.3d 408 (5th Cir. 1995) (limiting copyright protection to non-functional elements of user interface).

138. This overstates the case in not allowing for storage that is so transient that it cannot be said that the program was ever fixed in a tangible medium. A defining quality of it is being at least temporarily fixed in a tangible medium. See 17 U.S.C. § 101 (1994) (definition of "copy").

139. See *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993).

140. See *National Car Rental Sys., Inc. v. Computer Assoc. Int'l, Inc.*, 991 F.2d 426 (8th Cir. 1993), *cert. denied*, 510 U.S. 861 (1993).

141. See *id.*

expressed reservations about rote application of the latter principle¹⁴² and reaffirmed that copyright is not infringed merely by reproducing a computer program in Random Access Memory (RAM) in the course of the program's use if the program copy was not subject to a contractual use restriction when acquired.¹⁴³

This brief review, *DSC v. Pulse*, and other underlying cases show that more turns on the terms of the contract between the copyright owner and the party to whom it transfers a copy rather than on the bare existence of copyright. Some cases arguably support the ILEC position that CLEC access of unbundled network elements that requires making a temporary copy of a computer program supplied by an equipment manufacturer produces an unauthorized, and therefore infringing, copy. It is nevertheless clear that a license to use a program copy to perform a network element equipment function expressly or impliedly authorizes any necessary reproduction of that copy in RAM or other volatile memory. Manufacturers' comments shy from the ILEC position, and in some instances support the alternative view in stating that there is no distinction to be drawn between use by ILECs and use of unbundled network element computer programs by CLECs.¹⁴⁴ Greater emphasis in equipment manufacturers' comments on contractual use restrictions further supports this, and identifies those restrictions, rather than intellectual property rights, as the most significant issue. The necessary implication is that the MCI and Local Exchange Carrier Coalition petitions, and parties' definition of issues in negotiating and requesting arbitration interconnection agreements, are misdirected.

142. See *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999) (rejecting view that licensee cannot be the owner of a copy for purposes of the Copyright Act in favor of focusing on particular facts in light of, among other things, underlying reasoning of court in *MAI v. Peak*).

143. See *id.* at 1363.

144. See Northern Telecom, Inc., Comments at 5-6, *In re MCI Petition for Declaratory Ruling* (Apr. 14, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4) (so long as direct access not involved); Lucent Techs., Inc., Comments at 2, *In re MCI Petition for Declaratory Ruling* (Apr. 14, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Lucent Techs., Inc., Reply Comments at 2, *In re MCI Petition for Declaratory Ruling* (May 6, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

C. *Price Discrimination Implications of Equipment Manufacturers' Comments*

Equipment manufacturers' responses do not make clear whether manufacturers intend to require new licenses, modification of existing licenses, or the payment of additional fees. What is clear, however, is that the situation is prime for requiring additional payments. *DSC v. Pulse* demonstrates that telecommunications equipment manufacturers sometimes do claim substantial rights to control use even when, in exchange for a single payment, equipment is delivered under a contract that gives an ILEC the right to possess and use the equipment for an indefinite term. Market entry in a network environment, the situation with which 47 U.S.C. § 251 deals, almost uniquely presents the opportunity to exercise this control to require new agreements and payments.¹⁴⁵

The concern expressed most directly by AT&T is that statutorily required CLEC access to unbundled network elements clearly presents equipment manufacturers with an opportunity, and a strong economic incentive, to demand extra compensation as a condition of granting additional or new use rights.¹⁴⁶ A primary function of contract terms that restrict the use of computer programs and electronic databases is to differentiate customers by type, intensity, and other use criteria.¹⁴⁷ Inclusion of restriction-of-use terms in contracts between ILECs and their equipment providers as a means of distinguishing ILEC and CLEC use can be made the basis for exacting heavy tolls for third party CLEC access and use irrespective of whether CLEC access to the particular network elements requires equipment manufacturers to render any additional performance, provide new equipment or use capacity, or expand their license of intellectual property rights.¹⁴⁸ Indication that such premiums might be charged was carefully avoided in equipment manufacturers' comments, yet those comments expressed strong

145. See Mark A. Lemley & David McGowan, *Legal Implications of Network Economic Effects*, 86 Cal. L. Rev. 479, 488-90, 548-51 (1998).

146. See AT&T, Comments at 14, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Telecommunications Resellers Ass'n, Comments at 6-8, *In re MCI Petition for Declaratory Ruling* (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

147. See *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1449 (7th Cir. 1996).

148. See Michael J. Meurer, *Price Discrimination, Personal Use and Piracy: Copyright Protection of Digital Works*, 45 Buff. L. Rev. 845 (1997); Rice, *supra* note 112, at 1266.

concern that the Commission not presume to limit the enforceability of restriction-of-use contract terms.¹⁴⁹

The circumstances and prospects led AT&T, in particular, to emphasize the allocation of direct and transactions costs of equipment manufacturers' price discrimination premiums between ILECs or CLECs as the most important issue presented by the MCI Petition.¹⁵⁰ The position effectively accepts, *arguendo*, the enforceability of contractual restriction-of-use terms. It further anticipates that economically rational equipment manufacturers will view legislatively mandated CLEC access to and use of unbundled local network elements as an opportunity to use contract terms in the described manner to secure a greater economic return. Since the market for telecommunications equipment is unregulated, the latter assumption is justified. The resulting focal points therefore are reduced to the enforceability of manufacturer's restriction of use terms and the allocation of new premium charges between CLECs and ILECs.

IV. CONTRACTUAL COPY USE RESTRICTIONS—REVISITED

A. *Significance for Local Competition Policy Implementation*

The state commission order that precipitated MCI's filing of a petition for declaratory relief allocated to CLECs the burden of ascertaining the necessity for obtaining additional approvals, along with the burden of negotiating and pay for them.¹⁵¹ Implicitly, it also placed on CLECs the burden and cost of disputing the effect of any contractual restriction-of-use terms contained in individual equipment manufacturers' contracts with Southwestern Bell. The 47 U.S.C. § 251 mandate that ILECs provide access to retail services and unbundled network elements on a nondiscriminatory basis was addressed primarily by rejection of Southwestern Bell's claim that it additionally was the responsibility of a CLEC to independently identify those manufacturers from which additional

149. See Lucent Techs., Inc., Comments at 4, 5-6, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4); Northern Telecom, Inc., Comments at 3-5, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

150. See AT&T, Comments at 3, 10-16, *In re* MCI Petition for Declaratory Ruling (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

151. See *supra* text accompanying note 15.

right-to-use authorization might be required.¹⁵² The state commission instead required that Southwestern Bell supply upon request a list of all known and necessary license and right-to-use agreements and to use best efforts to facilitate CLEC acquisition of any necessary authority.¹⁵³

UCITA and decisions such as *ProCD v. Zeidenberg* make telecommunication equipment manufacturers' contractual right-to-use restrictions, not their intellectual property rights, the most prominent impediments to ILEC provision of CLEC access to and use of unbundled network elements.¹⁵⁴ Equipment manufacturers' comments filed in response to the Commission's request for comments on the MCI petition suggest that additional authorization will not be required, but stop well short of stating that no existing or future contracts will require it. The fact is that the policy and mandate expressed in 47 U.S.C. § 251 structurally create a strong incentive for equipment manufacturers to seek additional revenues based on CLEC use of local network elements. Initially, the end might be sought through interpretation of terms in existing ILEC contracts. In the longer term, the means might shift to what might be called clarifying modification of existing contract terms and the reframing of comparable terms in new contracts. Correspondingly, the position taken by Regional Bell Operating Company ILECs with respect to negotiation of 47 U.S.C. § 251 agreements strongly indicates a disposition to welcome, not bargain against, such terms. The conditions conduce to a result based solely on common interest. Collusion is not required.

B. *Limitations on the Enforceability of Contract Terms*

The enforceability of contract terms is subject to some limitations. Copyright law includes specific limitations, the most notable

152. See *In re MFS Communications Co., Inc. Arbitration Award*, Tex. Pub. Util. Comm'n, Docket Nos. 16189, 16196 and 16226, slip op. at ¶ 96 (Nov. 7, 1996).

153. *Id.*

154. Numerous commentators remark that contractual restriction of use rivals, and often exceeds, copyright in its scope of protection and its contemporary importance. See Yochai Benkler, *Free as the Air to Common Use: First Amendment Constraints on Enclosure of the Public Domain*, 74 N.Y.U. L. Rev. 354, 429-33 (1999); Julie E. Cohen, *Lochner in Cyberspace: The New Economic Orthodoxy of "Rights Management"*, 97 Mich. L. Rev. 462 (1998); Michael J. Madison, *Legal-Ware: Contract and Copyright in the Digital Age*, 67 Fordham L. Rev. 1025 (1998); Neil W. Netanal, *Copyright in a Democratic and Civil Society*, 106 Yale L.J. 283, 382-83 (1996).

being the rights reserved to the owner of a computer program copy under 17 U.S.C. § 117 of the Act.¹⁵⁵ Its relevance is limited, however, to contests between the owner of copyright and one who possesses and claims to have the rights of the owner of a copy. Its relevance and effect was argued and considered in the trial court in *DSC v. Pulse*,¹⁵⁶ but it has little if any bearing on the issues presented by the MCI petition.

The copyright misuse doctrine is a further limitation on the enforceability of license terms.¹⁵⁷ It also has little relevance. Judicially, it is a doctrine notable for its frequent judicial recognition, but still-evolving affirmative application.¹⁵⁸ It also has little direct relevance since it thus far is recognized only as an affirmative defense in an action for copyright infringement.¹⁵⁹ Further, it might require substantial extension of the doctrine to invalidate contractual restrictions on the use of a copyright protected work based upon the effect of ILEC and manufacturer contract terms on a third party CLEC.

UCITA recognizes two other limitations: unconscionability of a contract or term¹⁶⁰ and contract term violation of other public pol-

155. See 17 U.S.C. § 117 (1994).

156. *DSC Communications, Corp. v. Pulse Communications, Inc.*, 976 F. Supp. 359, 362-63 (1997), *aff'd in part, rev'd in part and remanded*, 170 F.3d 1354 (Fed. Cir. 1999).

157. See *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772 (5th Cir. 1999); *Practice Management Info. v. American Medical Assoc.*, 133 F.3d 1140 (9th Cir. 1998); *Lasercomb America, Inc v. Reynolds*, 911 F.2d 970 (4th Cir. 1990). Copyright misuse was asserted as a defense against liability for infringement in *DSC v. Pulse*, but it was not considered on the merits by the Federal Circuit because the District Court, having dismissed the copyright claims, had not considered the defense below. *DSC v. Pulse*, 170 F.3d at 1368. In *Alcatel v. DGI* the Fifth Circuit reversed the District Court rejection of the copyright misuse defense to an action brought by *DSC's* successor, *Alcatel*.

158. See, e.g., *BellSouth Adver. & Publ'g Corp. v. Donnelley Info. Publ'g Inc.*, 933 F.2d 952, 960-61 (11th Cir. 1991) (perhaps requiring, contrary to *Lasercomb*, antitrust violation in order for doctrine to apply). On the state of the copyright use defense generally, see, G. Gervaise Davis, III., *The Rapidly Growing Defense of Copyright Misuse and Efforts to Establish Trademark Misuse* 566 (1985) and *Practicing Law Institute: Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series* 639 (1999).

159. See *Broadcast Music, Inc. v. Hearst/ABC Viacom Entertainment Servs.*, 746 F. Supp. 320, 328 (S.D.N.Y. 1990).

160. UCITA § 111(a) states:

(a) If a court as a matter of law finds a contract or a term thereof to have been unconscionable at the time it was made, the court may refuse to enforce the contract, enforce the remainder of the contract without the un-

icy.¹⁶¹ The first limitation is of no significance in the immediate context. Unconscionability is rarely found in a case involving a contract between two commercial parties, and certainly not where the term-challenging party is a substantial and sophisticated commercial entity.¹⁶² It might be additionally argued that a third party cannot meet one of the two traditional criteria in unconscionability analysis, "procedural"¹⁶³ as opposed to "substantive"¹⁶⁴ unconscionability. UCITA itself moots this point. Legislating that computer information contractual use restrictions are fully enforceable against third parties¹⁶⁵ necessarily makes either procedural unconscionability, or unconscionability as a limitation, wholly irrelevant where term enforcement is against a third party. Since there is no statutory rule that expressly precludes a transferee from resisting enforcement of a term on the ground that it is unconscionable, the former is more logical.¹⁶⁶ Even so, this insight

conscionable term, or limit the application of the unconscionable term so as to avoid an unconscionable result.

161. UCITA § 105(b) states:

(b) If a term of a contract violates a fundamental public policy, the court may refuse to enforce the contract, enforce the remainder of the contract without the impermissible term, or limit the application of the impermissible term so as to avoid a result contrary to public policy, in each case to the extent that the interest in enforcement is clearly outweighed by a public policy against enforcement of the term.

162. See James J. White & Robert S. Summers, *Uniform Commercial Code* § 4-9 (5th ed. 1999); E. Allen Farnsworth, *Farnsworth on Contracts* § 4.28 (1999).

163. "Procedural unconscionability" concerns contracting circumstances. Factually, it focuses on such matters as the relative positions and capacities of the parties, and especially whether the person against whom enforcement is sought was necessitous, unfairly surprised, or otherwise at significant disadvantage. See White & Summers, *supra* note 162, at § 4-3; Farnsworth, *supra* note 162, at § 4.28. The two-part procedural and substantive tests of unconscionability trace to Professor Arthur A. Leff's seminal article, *Unconscionability and the Code—The Emperor's New Clause*, 115 U. Pa. L. Rev. 485 (1967).

164. "Substantive unconscionability" concerns the nature and effect of a term or contract. Its focus is on matters such as harshness and overreaching. See White & Summers, *supra* note 162, at §§ 4-6, 4-7; Farnsworth, *supra* note 162, at § 4.28.

165. UCITA § 504(b)(1) states "The transferee is subject to all contractual use terms."

166. It hardly can be doubted that fundamental, not waiveable limitations on the enforceability of terms or contracts inhere in them, and cannot be laundered. Most judges would think it disingenuous to argue that a non-contracting person against whom UCITA statutorily makes contract terms enforceable may not challenge the enforceability of term on the ground because she really is not a contracting party. The limited point is that a person against whom UCITA makes a term enforceable as if she was a contracting party should be entitled to assert the

has little application in the immediate context because the contracts in question are paradigmatically commercial.

Unlike unconscionability, public policy limits on contract and term enforceability are generally indifferent to whether a contract is, or is not, commercial.¹⁶⁷ The sources of public policy upon which courts draw, and which UCITA directly makes applicable, are extrinsic. Deal or contracting facts are relevant only to the extent that they show whether conditions necessary to, or guiding the application of, a particular *ex contractu* public policy are met.¹⁶⁸ In contrast, procedural unconscionability looks to deal facts in assessing the particular bargain context, and substantive unconscionability looks to deal-specific risk allocation effects of a challenged term or contract.¹⁶⁹

UCITA does not create new law by expressly making contracts and terms which it governs subject to public policy as a limitation on enforceability. General contract and commercial law recognize judicial authority to invalidate a contract term or declare a contract unenforceable for reasons of public policy.¹⁷⁰ Case law, pending individual states' enactment of UCITA, establishes that Article 2 of the Uniform Commercial Code governs software contracts.¹⁷¹ Inherent in applying the U.C.C. is that U.C.C. § 1-103 applies, and opens the way to the application of extrinsic expressions of public policy to limit the enforceability of telecommunications equipment contracts and their terms. Similarly, general contract law estab-

substantive unconscionability of a term with respect to which enforcement is sought as if she was a contracting party. The sophistry of the alternative, making the term uncontestable because she had absolutely no contracting party self-protection opportunity, is self evident.

167. This is best exemplified by antitrust law which, aside from the monopoly provisions of the Sherman Antitrust Act, 15 U.S.C. § 2, proscribes contracts in restraint of trade. *See* 15 U.S.C. § 2 (1994). Commercial contracts are its subject matter.

168. Antitrust law, and particularly the Rule of Reason, most clearly exemplifies this.

169. UCITA § 111(b) states:

(b) If it is claimed or appears to the court that a contract or term thereof may be unconscionable, the parties must be afforded a reasonable opportunity to present evidence as to its commercial setting, purpose, and effect to aid the court in making the determination.

170. *See*, Restatement (Second) of Contracts §§ 178-79 (1981); U.C.C. § 1-103 (1995) (Supplementary General Principles of Law); Farnsworth, *supra* note 162, at § 5.1.

171. *See* cases cited *supra* notes 52 and 54.

lishes public policy limits on the enforceability of ILEC and CLEC unbundled network element access and sale of retail services agreements and terms.¹⁷² Affected terms clearly include those established by State agency arbitration pursuant to 47 U.S.C. § 252(b).

Historically, the principle that a contract term that violates public policy is unenforceable was a creation of the courts.¹⁷³ Courts have drawn upon diverse sources when determining whether a term or contract is unenforceable for reasons of public policy. Considered sources range from moral and social values to economic principles and ideas.¹⁷⁴ Recognizing that elected legislatures are increasingly prominent expostulators of public policy, courts tend to look more to legislation and less to general norms as the most relevant or governing expression of public policy.¹⁷⁵ Regardless, it remains exclusively for a court or other appropriate adjudicative body to determine whether and how a particular public policy affects the enforceability of an individual contract or its terms.

The Telecom Act strongly expresses a primary, and several secondary, public policies. Promotion of competition in the provision of telecommunications services is the primary purpose of the landmark legislation.¹⁷⁶ Secondly, it articulates public policies of promoting competition in the provision of local exchange carrier services,¹⁷⁷ interconnection,¹⁷⁸ and competition in the provision of long distance telecommunication services.¹⁷⁹ Interstitially, it expresses a legislative judgment and policy that ILECs, and principally RBOCs, shall not be granted authority to provide interLATA (Local Access and Transport Area) or long distance services

172. Contracts for services, as opposed to transactions in goods, are governed by general contract law, not U.C.C. Article 2: Sale of Goods. See cases cited *supra* note 53.

173. See Farnsworth, *supra* note 162, at § 5.1. The principle is one which, as matter of public policy, denies the exercise of judicial power to enforce a contract or term which contravenes an identifiable public policy. It seeks primarily protects the integrity of the state and its courts, and secondarily an individual against whom enforcement is sought.

174. See *id.* at § 5.2.

175. See *id.* at § 5.5.

176. See 47 U.S.C. § 257(b) (Supp. III 1997).

177. See *id.* at § 251(b), (c).

178. See *id.* at §§ 251(a), 257(b).

179. See *id.* at § 257(b).

originating from within their region until they have demonstrated compliance with the mandate to provide CLECs with access to and use of unbundled local exchange network elements and retail services at wholesale rates on a just, reasonable, and nondiscriminatory basis.¹⁸⁰

V. IMPLICATIONS FOR *PETITION OF MCI* AND RECONSIDERATION OF THE COMMISSION'S FIRST REPORT AND ORDER IMPLEMENTING THE TELECOMMUNICATIONS ACT OF 1996

A. *Procedural Setting and Alternatives*

MCI's petition requested that the Commission issue a declaration that the Telecom Act preempts state commission arbitral imposition of a requirement that CLECs negotiate and pay for additional equipment provider right-to-use terms.¹⁸¹ The issue also was raised by the Local Exchange Carrier Coalition petition for Commission reconsideration of its First Report and Order¹⁸² and in *AT&T v. Bell Atlantic*.

Procedurally, the issue is before the Commission in two styles: as an adjudicatory and as a rulemaking matter. The first raises both the particular issue, and issues related to interpretation of the Commission's preemption authority under 47 U.S.C. § 253 (d).¹⁸³ The second raises no issue concerning statutory authority¹⁸⁴ and therefore more cleanly raises the particular substantive issue. A third means by which the issue conceivably might come before the Commission would be in connection with a RBOC application for authority to provide in-region interLATA and long distance services. Such authority is conditioned on the RBOC being a

180. See *id.* at § 271.

181. See *In re* Petition of MCI for Declaratory Ruling (Mar. 11, 1997) (CC Docket No. 96-98, File No. CCBPOL 97-4).

182. See *id.*

183. 47 U.S.C. § 253(a) provides that "[n]o State or local statute or regulation, or other State or local legal requirement, may prohibit or have the effect of prohibiting the ability of any entity to provide any interstate or intrastate telecommunications service." 47 U.S.C. § 253(a) (Supp. III 1997). 47 U.S.C. § 253(d) empowers the Commission to preempt any such statute, regulation or legal requirement. See *id.* at § 253(d).

184. The power of the Commission to utilize its general rulemaking powers under Section 201(b) of the Communications Act of 1934, as amended, in carrying out the provisions of the Telecommunications Act of 1996 was settled in the Commission's favor in *AT&T v. Iowa Utilities Board*, 525 U.S. 366, 377-86 (1999).

party to one or more agreements by which it provides CLEC interconnection with and access to the RBOC's network facilities,¹⁸⁵ and satisfying a lengthy checklist which includes providing nondiscriminatory access to network elements comprised of, *e.g.*, unbundled local loop, transport, switching elements.¹⁸⁶

AT&T v. Bell Atlantic shows a fourth manner in which the issue can arise. Interconnection agreement terms established by state commission arbitration pursuant to 47 U.S.C. § 252(b) are subject to challenge in federal district court.¹⁸⁷ The reported and unreported District Court and, more recently, Court of Appeals decisions dealing with such challenges are becoming quite numerous. Even so, the recent Fourth Circuit decision is the only reported decision at all on-point despite the term frequently being one on which the negotiating parties cannot reach agreement and must submit for arbitration to date.

The fifth way in which the issue might present would be entirely outside implementation of the Telecom Act. It would be in an equipment manufacturer lawsuit alleging ILEC breach of a right-of-use restriction by providing CLEC access to and use of local network elements and, perhaps, CLEC inducement of breach. Direct and contributory copyright infringement claims doubtlessly would be asserted in any such action. The parties, relationships, business considerations, and actual disputed uses differ from those of *DSC v. Pulse* and similar cases, but occupy common ground. Each presents basic issues about the enforceability of restriction-of-use terms, and liability for direct and contributory copyright infringement. Private litigation nevertheless differs, and its consideration as a way in which same or similar substantive issues might be raised is beyond the scope of this article. Its focus is on how issues that ordinarily present in private litigation bear upon administrative implementation of the Telecom Act.

185. See 47 U.S.C. § 271(c)(1)(A), (2)(A)(i)(I) (Supp. III 1997). If no such interconnection has been requested, the requirement can be satisfied by filing with its state commission a statement of terms and conditions that the RBOC generally offers for the provision of such interconnection and network facilities access. See *id.* at § 271(c)(1)(B), (2)(A)(i)(II).

186. See *id.* at § 271(2)(B).

187. See *id.* at § 252(e)(6).

B. *Substantive Issues: Negotiation and Payment for New Use Authorization*

Neither the author nor telecommunications equipment manufacturers perceive any substantial likelihood that manufacturers' patents or copyrights will be infringed, or their trade secrets wrongfully disclosed, by ILEC sale of retail services at wholesale rates or CLEC use of unbundled network elements. At the same time, manufacturers insist that expanded or new contractual authorization, and perhaps accompanying payment, may be required. Beyond this, they generally express neutrality on the questions of whether an ILEC or CLEC must negotiate and make payment for that authorization, or how associated financial costs should be allocated between an ILEC and a CLEC.

General indifference toward who must negotiate and pay for any additional right-to-use authority is consistent with the view that implementation of the Telecom Act poses little threat to intellectual property rights. It also evidences an awareness of revenue-enhancement opportunities with respect to already sold or licensed equipment and software. Yet it appears, based on the Milgrim affidavit, that confidentiality restrictions may limit ILECs' ability to disclose to CLECs the terms of ILEC and equipment provider contracts. This suggests some difficulty for the Commission with respect to state commissions' potentially differing allocations of responsibility to obtain additional or new right-to-use permission and whether that responsibility should be placed on the ILEC or CLEC. On the one hand, access to information required for negotiation by CLECs is restricted. On the other there may be little incentive for ILECs to aggressively bargain with equipment providers concerning financial terms. Each has significant Telecom Act implications.

Even the state commission decision most favorable to ILECs rejected that CLECs must search in the darkness of an information embargo to ascertain whether, and from whom, additional authority must be sought and bought.¹⁸⁸ *AT&T v. Bell Atlantic* concurred that this is a problem, but did deal with it directly. It seems implicitly addressed, however, by the requirement that ILECs to negotiate future contract terms to include sufficient authority for

188. See *supra* text accompanying note 15.

CLEC access, and to use best efforts to renegotiate existing contracts.

This approach admits of several problems, the first of which is that it does not assure acquisition of authority for CLEC interconnection and unbundled network element use. In addition, it does not resolve the cost allocation for transaction costs and additional fees that may result if a CLEC ultimately negotiates after an ILEC's good faith negotiation authorization effort fails. More generally, the alternative of assigning the burden and control of negotiation to ILECs lacks appeal if one is of the view that ILECs' lack incentive to expedite CLEC market entry.¹⁸⁹ Control over negotiation for a required additional use authority translates into substantial control over the timetable for CLEC market entry. This is true regardless of whether CLECs are held solely responsible for additional license or right-to-use fees or ILECs and CLECs must share the costs on a just, reasonable, and nondiscriminatory basis. Even more obvious is that ILECs have an incentive to accede to high cost terms if CLECs alone are responsible for payment of any additional payments sought by opportunity-maximizing equipment manufacturers.

State Commissions have addressed the matter in the course of term arbitration, imposing on ILECs an affirmative obligation to act with diligence and in good faith. They specifically have required that ILECs provide a requesting CLEC with information sufficient to identify those telecommunications equipment manufacturers from which additional right-to-use authorization may be required.¹⁹⁰ Secondly, they have required that ILECs act in good faith to provide any other necessary assistance.¹⁹¹ Failure to meet these or related obligations would be actionable by a CLEC as a breach of contract where the term was part of an agreement concluded between an ILEC and a CLEC. It also would be a ground for CLEC objection to Commission approval of an RBOC applica-

189. See *supra* text accompanying note 13.

190. This is manifest in the Texas Public Utilities Commission requirement in its MCI and other decisions that Southwestern Bell act in good faith and use its best efforts to assist CLEC acquisition of required additional rights. See Texas Pub. Util. Comm'n, Comments at 3, *In re* Petition of MCI and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996 (Apr. 15, 1997) (CC Docket No. 96-98, File No. CCBPol 97-4).

191. See *id.*

tion to provide either interLATA¹⁹² or out-of-region long distance¹⁹³ telecommunications services originating from within its region.

It is not the author's purpose to advance a particular substantive resolution. Discussion of particulars, their potential implications, and the consequences of differing state treatment of questions not in any way local in character nevertheless demonstrates the need for, not mere appropriateness of, for a single and generally applicable disposition.

C. *Rationale for Commission Action*

More direct and generally applicable disposition by the Commission is called for by the MCI and Local Exchange Carrier Coalition petitions. Three significant policies support exercise of the authority and means available to the Commission. First, it is the policy of the Act to promote competition in the provision of telecommunications services, with particular emphasis on local markets in which RBOCs have been dominant or held monopolies. The second, and implicit, is a policy that services consumers will be the beneficiaries of price as well as services competition. The third is that this will come about in a manner that is reasonably expeditious.

The matter has been contested in a number of states, but the basic issues are not local in character. Even so, state commissions' arbitrated terms are similar in some respects and dissimilar in others. Indeed, differing terms might be established by compulsory arbitration in neighboring states that are within the same RBOC/ILEC region. This itself argues for a single and generally applicable resolution. More significant is that the dispute implicates several dimensions of national telecommunications policy as expressed in the Telecom Act. Action by the Commission, the agency primarily responsible for implementation of the Act, is the most obvious course. The principal question is not whether, but in what manner and by what means, the Commission should take up and address the recurrent issues.

192. See 47 U.S.C. § 271(b)(1), (c), (d) (Supp. III 1997).

193. See *id.* at § 271(b)(2), (j).

VI. MEANS FOR COMMISSION IMPLEMENTATION OF A
POLICY CHOICE

A. *Preemption Under 47 U.S.C. § 253 (d): Adjudication of the MCI Petition*

Jurisdiction to review a state-approved agreement lies with the appropriate Federal District Court¹⁹⁴ FCC jurisdiction under 47 U.S.C. § 252 is limited to acting in the stead of a state commission that does not timely act to approve an agreement reached by an ILEC and a CLEC or otherwise fails to carry out its responsibilities under 47 U.S.C. § 252.¹⁹⁵ MCI's petition therefore was brought with referenced 47 U.S.C. § 251 and invoked the Commission's authority under 47 U.S.C. § 253(d) to declare that a state or local legal requirement that a CLEC independently negotiate licensing agreements with equipment vendors has "the effect of prohibiting the ability of a [CLEC] . . . to provide . . . interstate or intrastate telecommunication service"¹⁹⁶ and to preempt enforcement of any such legal requirement pursuant to 47 U.S.C. § 253(d).¹⁹⁷

Proceeding under 47 U.S.C. § 253 on an individual petition for a declaration concerning an SGAT term upon which negotiating parties did not agree is a legally precarious course of action for the Commission. First, there is a question of whether an arbitration-established term fits the description of a "State or local statute or regulation, or other State or local legal requirement?" Is a term established by a state commission in its federally-mandated compulsory arbitration of disputed terms "a local legal requirement?" Likely not. "Local requirement" seems intended to reach measures such as local ordinances or permitting processes.¹⁹⁸ Terms prescribed by a state commission in its exercise of a federal statutory power and mandate to arbitrate terms on which an ILEC and a CLEC have not reached a negotiated agreement seem quite different. They lack the organic character of a statute, regulation, or ordinance. Rather, they are terms of a private agreement which

194. *See id.* at § 252(e)(6). State court review is expressly precluded. *See id.* at § 252(e)(4).

195. *Id.* at § 252(e)(5).

196. *Id.* at § 253(a).

197. *See id.* at § 253(d).

198. *See, e.g.,* AT&T Communications of the Southwest, Inc., 975 F. Supp. 928 (W.D. Tex. 1997).

has public overtones in that negotiation and conclusion of an agreement is statutorily mandated by the Telecom Act.

B. *Commission Exercise of Its Rulemaking Authority*

Commission exercise of its general rulemaking power to adopt regulations implementing the Telecom Act was upheld by the Supreme Court in *AT&T v. Iowa Utilities Board*. The record shows that issues related to ILEC versus CLEC responsibility identifying any need, negotiating, and paying for additional telecommunications equipment provider authorization are recurrent, not isolated. It also has been demonstrated that the agreement term in question has significant 1996 Act policy implications. The most prominent relate to the substantive statutory goals of promoting competition in the provision of telecommunications services and, in furtherance of that end, establishing a level playing field for incumbent and competing local exchange service providers. The less obvious include the process goals of efficiently and expeditiously transforming the telecommunications services sector from a regulated industry to a competitive market. Dispute, and the necessity of relying on state commission arbitration of agreement terms on a case-by-case basis slows the process of concluding 47 U.S.C. § 252 agreements. More important, it raises the specter of state-to-state differences concerning what the standard of just, reasonable, and nondiscriminatory terms requires in the circumstances.

The potential significance of differences is substantial. Terms set by the several states' commissions will govern, with differing consequences, the prospective negotiation of right-to-use terms and the amount of any attendant additional charges. State-to-state differences in arbitration-established terms, including those which allocate the burden of negotiating additional authority as well as those which determine who must pay any additional fees, will establish in practice differing pricing standards. This has been demonstrated in the discussion of how the content of negotiation responsibility, and even more so additional fee payment, terms are shaped.¹⁹⁹

The majority in *AT&T v. Iowa Utilities Board* rejected the argument that the 47 U.S.C. § 252(c), concerning standards for arbitration, and its reservation of local services rate-setting to state

199. See *supra* text accompanying notes 192 and 193.

commissions rendered the Commission's Total Element Long Run Incremental Cost Pricing (TELRIC) regulations invalid.²⁰⁰ The Court upheld the Commission's action on the ground that the Commission's authority under 47 U.S.C. § 251 gave it power to establish pricing standards and a pricing methodology that state commissions must apply in the establishment of rates in a manner that complies with 47 U.S.C. § 251.²⁰¹

The agreement terms at issue invariably have been the subject of state commission arbitration and establish pricing-related standards. Although different because more particular than the TELRIC rule challenged in *AT&T v. Iowa Utilities Board*, the involved terms are in fact integral to a pricing standard and methodology of general relevance and application. The recurrent need for state commission arbitration of the term testifies to the general relevance and application of a Commission rule addressed to the matter. The bottom-line cost implications of the disputants' differing positions amply attest that allocation of the burdens of identifying potential need for new right-to-use authority, securing it through negotiation, and paying any additional fees demonstrate the need for a generally applicable standard framed with reference to the goals and requirements of 47 U.S.C. § 251. In summary, rulemaking is an available, appropriate and the recommended course of action.

C. *Jurisdiction and Resolution Under 47 U.S.C. § 271*

RBOC application to the Commission under 47 U.S.C. § 271 for authorization to provide interLATA services originating in one or more states within its region presents the Commission with a last-look opportunity to consider terms on which the applicant offers competing carriers access to and use of unbundled network elements. The statutory procedure requires that the Commission notify the Attorney General of the application in order to provide an opportunity to submit comments and submit an evaluation of the application "using any standard the Attorney General considers appropriate."²⁰² It also requires consultation with the state

200. 525 U.S. 366, 377-86 (1999).

201. *Id.*

202. 47 U.S.C. § 271(d)(2) (Supp. III 1997). See the Evaluation of the U.S. Department of Justice, Application of SBC Communications, Inc. (May 16, 1997) (CC Docket No 97-121) as an example of such a filing.

commission in any state covered by the application. The purpose of the latter is to verify RBOC compliance with the requirement that it has entered into one or more agreements approved pursuant to 47 U.S.C. § 252, or generally offered suitable agreement terms and conditions even though no competing carrier has requested access and interconnection,²⁰³ and meets the competitive checklist requirements of 47 U.S.C. § 271(c)2(B).²⁰⁴ The Commission may approve an application only if the petitioner has met the agreement requirements of 47 U.S.C. § 271(c)(1) and the checklist requirements of 47 U.S.C. § 271(2)(c), and the Commission is satisfied that requested approval is consistent with the public interest, convenience and necessity.²⁰⁵

The 47 U.S.C. § 271 approval process appears to provide a suitable and serviceable means for addressing issues of the kind presented by the MCI and Local Exchange Carrier Coalition on a case-by-case basis. Indeed, a 47 U.S.C. § 271 application is uniquely capable of presenting the subject matter in its broad perspective because the application may seek approval to provide interLATA services originating in more than one state within an RBOC's region. State-to-state differences in some negotiated or arbitration-established terms might be expected and generally unremarkable. Yet it has been shown that the terms in question directly bear on whether an interconnection and access agreement provides access to and use of network elements on terms that are consistent with the requirements of 47 U.S.C. §§ 251 and 252. Moreover, the preceding discussion of rulemaking as a potential and recommended response is grounded in the fact that state-to-state differences in this realm significantly implicate 1996 Act policies and the potential for their fulfillment.

While suitable and serviceable, the 47 U.S.C. § 271(d) application and approval process is little better than a back-stop or fail-safe rather than an efficient means for dealing with the issues presented by MCI and the Local Exchange Carrier Coalition.

203. See 47 U.S.C. § 271(c)(1), (2)(A) (Supp. III 1997).

204. See *id.* at § 271(c)(2)(B).

205. See *id.* at § 271(d)(3). The Commission retains some supervisory authority even after approval. Specifically, if it determines that an RBOC has ceased to be in compliance with any conditions of approval, it may issue an order, after notice and an opportunity for a hearing, to correct the noncompliance, impose a statutory penalty, or suspend or revoke its prior 47 U.S.C. § 271(d) approval. See *id.* at § 271(d)(6).

Leaving so fundamental an issue for address in this late, and essentially binary choice, decision making stage is undesirable. This is evident upon considering the procedural status that results in the event the Commission determines that an application does not meet the requirements of 47 U.S.C. § 271. On the one hand, an RBOC might seek judicial review of the Commission's denial by filing an appeal to the Court of Appeals for the District of Columbia Circuit.²⁰⁶ Alternatively, it might renegotiate agreement terms²⁰⁷ and seek state commission approval of the revision.²⁰⁸ The process in each instance is one that introduces delay into, not expedites, implementation of the requirements and policy objectives of the Telecom Act. Thus, although suitable and serviceable, 47 U.S.C. § 271 offers a policy resolution means that is distinctly inferior to Commission rulemaking.

D. *Judicial Resolution of Issue*

AT&T v. Bell Atlantic and *DSC v. Pulse* exemplify different ways in which the effect of intellectual property license terms and contractual right-to-use restrictions may come before the courts rather than the Commission. The first directly presents the issue as one for resolution under the Telecom Act. Even so, differing outcomes may be reached in the several judicial circuits and their districts so long as the issue does not reach the Supreme Court on its merits.²⁰⁹ The second presents the issue as one of contract restriction enforceability or intellectual property rights infringement. Telecom Act policy as interpreted by the Commission and the courts in other matters will be essential background in any such litigation, and in some cases interconnection agreement indemnifi-

206. See *id.* at § 402(b).

207. In a case where no request for interconnection and access has been made by a competing carrier, this would require revision of SGATS. See *id.* at § 271(c)(1)(B).

208. The requirement of new state approval is not explicit in the Telecom Act, but is implicit in the 47 U.S.C. § 271(d)(2)(B) requirement that the Commission consult with relevant state commissions to ascertain whether an RBOC which has filed a 47 U.S.C. § 271(d) application—including a later application—had met the interconnection and access agreement and competition checklist requirements of 47 U.S.C. § 271(c).

209. No petition for certiorari was filed in *AT&T v. Bell Atlantic* at the time this article was published.

cation terms of the kind established by the Virginia State Corporation Commission²¹⁰ will bring the Telecom Act into the foreground.

The decision of the Fourth Circuit in *AT&T v. Bell Atlantic* is quite satisfactory in some respects, less so in others, and only a partial response in general. A critical assumption in this capsule appraisal is that the remand to the Virginia State Corporation Commission does not disturb the requirement that, in future equipment hardware and software negotiations, Bell Atlantic negotiate intellectual property license and contractual right-to-use terms sufficient to the interconnection and network element use requirements of AT&T, MCI and other CLECs. It is that provision which most clearly is satisfactory. Less so is the Fourth Circuit's holding that Bell Atlantic is required to use its best effort to renegotiate existing intellectual property license terms.

Concluding that 47 U.S.C. § 251(c)(3) does not require Bell Atlantic to provide interconnection and access to and use of unbundled network elements free of third party claims does not meet the statutory requirement that these be provided, let alone the requirement that they be provided on nondiscriminatory terms and conditions. Requiring only a good faith effort to renegotiate terms of existing agreements to expressly authorize interconnection or access to and use of network element hardware and software falls short of the 47 U.S.C. § 251 mandate that the incumbent local exchange carrier enter into interconnection agreements which provide for interconnection and for competitor access to and use of those elements. Even requiring in a Virginia State Corporation Commission arbitrated term that Bell Atlantic must in good faith assist competing local exchange carriers in succeeding negotiations with equipment manufactures is insufficient.²¹¹ It would permit state commission approval under 47 U.S.C. § 252 of what is facially an interconnection agreement which does not secure achievement of the goal of the Telecom Act: competitor entry into the local exchange services market. This is because the terms and conditions are not sufficient to in fact assure the availability or

210. See *AT&T Communications of Va., Inc. v. Bell Atlantic-Va.*, 197 F.3d 663, 670 (4th Cir. 1999).

211. Necessary assistance would include, at the threshold, sharing with CLECs information about existing licensing agreements, something which various Comments filed with the FCC and the Fourth Circuit's opinion in *AT&T v. Bell Atlantic* indicated that ILECs generally refuse to or indicate that they are barred from doing by the terms of such licenses.

provision of interconnection and access to unbundled network elements. In addition, the disposition in *AT&T v. Bell Atlantic* does not address what the Fourth Circuit itself recognized to be a problem, the fact that requiring competing carriers to negotiate and directly pay for additional right-to-use authorization economically disadvantages competing carriers vis a vis ILECs in the provision of local exchange services. As the court stated, "the lease rate by the [Virginia State Corporation Commission] . . . already accounts for licensing fees paid by Bell Atlantic, so any additional fees paid by MCI to third parties would constitute double payments."²¹² Finally, the Fourth Circuit opinion spoke only to third party intellectual property rights, not contractual right-to-use restrictions. As shown in this article, the latter likely are more significant than third party intellectual property rights as potential barriers to local competition policy implementation. Unfortunately, even if certiorari is sought and granted in *AT&T v. Bell Atlantic*, the asserted claims and pleadings do not appear to present the Supreme Court with an opportunity to resolve the full constellation of issues which are only partially raised by the MCI and Local Exchange Carrier Coalition petition and the litigated challenge to the Virginia State Corporation Commission order. Judicial address of the array of issues and their implications thus must await their full presentation by an affected party in another case.

The second way in which the issues might reach the courts is in an action brought by an equipment and software provider action against a CLEC or an ILEC. In contrast to *DSC v. Pulse*, an infringement action brought against a competitor, the claims would be against a user or customer. An action against a CLEC most likely would be for infringement of copyright or other intellectual property rights. The essence of the claim is that use of a network element involved making a copy of software or using network elements that was not authorized by the terms of an ILEC's license. Assuming the ILEC license is governed by UCITA, assertion of a contract-based claim is possible in at least some circumstances on the ground that UCITA makes license terms enforceable against third parties. As previously discussed, proceeding against a CLEC in contract is tenuous. On the other hand, contract would be the principal basis for an action against an ILEC which permitted

212. See *AT&T*, 197 F.3d 663, 670.

CLEC access to and use of the subject matter in violation of the manufacturer's contractual right-to-use restrictions. Ancillary claims for direct or contributory infringement of intellectual property rights also might be advanced in such an action.

The close relationship of any such action to Telecom Act implementation is emphasized by the fact that an action against either a CLEC or an ILEC might lead to assertion by one against the other of a right to indemnification under an interconnection agreement indemnification term. However, neither type of case is likely to present in full the issues directly and indirectly raised by the MCI and the Local Exchange Carrier Coalition petitions, or by an appropriately framed challenge to arbitrated terms contained in an interconnection agreement approved by a state commission. It is, in any event, beyond the scope of this article to extensively consider this type of litigation as a different means by which discussed Telecom Act issues might present. Even so, two brief comments directly related to matters are warranted. The first is that assertion of direct or contributory copyright infringement claims in the described manner may invite again judicial reassessment of the rule and implications of *MAI v. Peak*.²¹³ The second is that any contract claims that might asserted implicate public policy as expressed in the Telecom Act. In that respect, the terms for which enforcement are sought epitomize those which invite the UCITA section 105(b) or general contract law defense that they are unenforceable because their enforcement would violate extra-contractual public policy.

VII. OBSERVATIONS ON CONTRACT AND LIMITATIONS THEREON

Noticeably absent from the above discussion is an explicit mention of public policy, the copyright misuse doctrine, or other principles as limitations on the enforceability of equipment manufacturers' contractual restrictions of the use of their software or equipment. This reflects a conclusion that nothing in the Telecom Act or the Communications Act of 1934 vests the Commission with legal authority to express itself on the enforceability of terms of a particular manufacturer and ILEC contract. What the Commission

213. It should be recalled here that the Federal Circuit in *DSC v. Pulse* and the Fifth Circuit in *Alcatel v. DGI* expressed an unwillingness to fully embrace *MAI v. Peak*.

does have authority to address is the allocation between an ILEC and a CLEC of the transaction costs incurred in negotiating additional right-to-use authority and the price that must be paid to acquire that authority.

Still, the underlying purpose of the article is to address the market effects of enforcing right-to-use restrictions in contracts for the distribution of computer program and other electronic information product copies. It considers the effects of a general public policy favoring the enforceability of bargains within a statutory framework in which promotion of competition and the formation of facilitating agreements are other public policy expressions of the first order. It has been demonstrated that one effect of judicial and state legislative validation of vendor use of contract to lever the existence of intellectual property rights is to promote use of contract to erect barriers against primary line competition and to price discriminate. *DSC v. Pulse* and *Alcatel v. DGI* exemplify the former. The much mooted decision in *ProCD v. Zeidenberg* exemplifies the latter on facts which demonstrate that, without aid of contractual use restrictions, it is difficult to make an informational work or computer program widely available for general use at a price that is affordable and simultaneously charge a higher price to those who acquire the product for commercial use. The MCI and Local Exchange Carrier Coalition petitions deal with use restrictions in a quite different setting, and consequently bring out a different mix of effects. While they pertain to equipment provider, or UCITA "licensor," potential use of contractual use restrictions to price discriminate, it also involves ILEC, or UCITA "licensee," interjection of contractual right-to-use restrictions in an attempt to secure competitive advantage. The circumstances are atypical, if not unique, but strongly suggest that UCITA has unintended and unconsidered consequences particularly in network environments. In this instance, the contract terms which UCITA would enforce not only conflict with the policy objective of promoting local telecommunications service and price competition. They also create a prospect that the existence of use restricting terms and the need to account for them in the implementation of the Telecom Act will lead to an increase in costs to local service subscribers rather than full realization of an expected reduction brought about by a change from regulated to competitive markets.

The preceding observation suggests that network environments, and perhaps especially those subject to some—albeit decreasing—degree of regulation are ones in which the effects, and enforcement of contract terms generally made enforceable by UCITA and judicial decisions such as *ProCD v. Zeidenberg* contravene section 105 (b) of UCITA. It provides that a court may refuse to enforce a contract, or a particular term, if it determines that a contract term violates a fundamental public policy. In the immediate context, it might be argued that use restriction enforcement as a means to increase the price of otherwise ordinary use under the terms of an original contract clearly violates strong public policy favoring competition as generally expressed in antitrust law and more importantly, specifically expressed in the Telecom Act. The clear implication is that the term should not be enforced to the extent that it is a means to that end.²¹⁴ Arguably, this course of action may be beyond the authority of the Commission under 47 U.S.C. § 253(d) to preempt the enforcement of a state “statute, regulation, or legal requirement to the extent necessary to correct such violation or inconsistency” it determines to exist between the state law and the prohibition in 47 U.S.C. § 253(a) against state or local law prohibiting the ability of any entity to provide any intrastate telecommunications service. The issue was not raised in the first instance in *AT&T v. Bell Atlantic*, and therefore is not clearly presented even if the case eventually comes before the Supreme Court. It remains a question for future consideration and determination by a court with appropriate jurisdiction.

VIII. CONCLUDING OBSERVATIONS

The MCI and Local Exchange Carrier Coalition petitions and the *AT&T v. Bell Atlantic* decision show how legal discourse, argument, and disposition concerning information technology conflate intellectual property and contract rights. Factually, the contractual right-to-use restrictions are the most significant source of potential concern is the 47 U.S.C. §§ 251 and 252 context. Nominally, most of the parties and involved decision makers mischaracterize the subject matter for debate as intellectual property rather than contract rights. Jurisprudentially, this proceeds

214. UCITA § 105(b) permits a court to limit the enforceability of a term rather than forcing a bi-polar choice between enforcement and nonenforcement.

from—and demands further—misdirected analysis. The result is to over-extend property law principles in some instances²¹⁵ and contract rules in others,²¹⁶ and distort established rules of both in the course of justifying why they produce a result that truly apposite principles might or might not prescribe.²¹⁷ More generally, each is a legal manifestation of an information era conflict. This conflict is between those who depend upon a mix of intellectual property rights and contract terms to strengthen control over the distribution of information as a product or commodity, and those who perceive that this mix excessively restrains competition²¹⁸ and regresses product users from being free to being serfs.²¹⁹

The circumstance calls for federal rather than individual state commission determination of how to deal with third party intellectual property and, more usually, contract rights in interconnection agreements. The issue involves the proper interpretation of the Telecom Act and it has been raised in numerous states. Although the issue was first put to the Commission, it subsequently has been considered and addressed in part by Fourth Circuit in *AT&T v. Bell Atlantic*. Even if that decision is reviewed by the Supreme Court, there likely will be much left for the Commission to consider. All dimensions of the issue were not put before or expounded upon by the Fourth Circuit. More importantly, the parties defined and the Fourth Circuit dealt with the dispute as one concerned exclusively with third party intellectual property rights and rarely—or only secondarily—with related contractual

215. See, e.g., Cohen, *supra* note 154; Nimmer, *supra* note 24. The consequences of comparable conflation of property and tort are trenchantly illuminated by Judge Alex Kozinski in *Wendt v. Host Int'l, Inc.*, No 96-55243, 1999 WL 1256287 (9th Cir. Dec. 28, 1999).

216. See Jessica Littman, *The Tales That Article 2B Tells*, 13 Berkeley Tech. L.J. 931, 937-38 (1988); Rice, *supra* note 24.

217. The author's premise is that efficiency and fairness considerations still guide thoughtful and reasoning jurists. The suggestion is that a judge presented with a property issue cloaked in contract terms, or a contract issue cloaked in property terms, may seek the solution of the other body of law by recasting rules of the argued law rather than seeing and stating "Counsel . . . let's talk about the right stuff."

218. See David McGowan, *Free Contracting, Fair Competition, and Article 2B: Some Reflections on Federal Competition Policy, Information Transactions and "Aggressive Neutrality,"* 13 Berkeley Tech. L.J. 1173 (1998); Rice, *supra* note 112.

219. The insight is that of Thomas M.S. Hemns in *Restraints on Alienation, Equitable Servitude, and the Feudal Nature of Computer Software Licensing*, 71 Denv. U. L. Rev. 577 (1994).

right-to-use or restriction-of-use terms. Further, existing differences among states and the frequency with which lower federal courts differ on other often-presented interconnection agreement issues creates a likelihood of continuing state-to-state differences until such time as they are addressed by the Supreme Court or dealt with by the Commission.

The Commission has adequate legal authority to more completely address the matter, and the preferred means is through the Commission's exercise of its general rulemaking power. Fundamental differences between rulemaking and adjudication make the agency less dependent than the courts on how parties define the issues. This provides the Commission with an opportunity to initiate more careful differentiation between third party intellectual property and contract rights as appropriate. In contrast, proceeding by adjudication based on the MCI petition would limit the latitude of the Commission to insist upon greater attention to this difference. Finally, its legal authority to preempt specific terms prescribed by state commission arbitration is suspect. In summary, any effort to address the issues should be through rulemaking, not adjudication.

It would be an interesting venture to more deeply explore whether public policy expressed in the Telecom Act itself limits the enforceability of telecommunications equipment manufacturers' right-to-use restrictions. *Acatel v. DGI* and *DSC v. Pulse* already indicate that the copyright misuse defense may significantly limit the use of contract to lever copyright into a patent-like shield against competitor access to, and the use of software elements of, electronic switch and other telecommunications network equipment. UCITA, in contrast, makes such contractual right-to-use restrictions enforceable against third parties, including CLECs, as well as against an equipment manufacturer's competitors. The circumstance invites future investigation of other article-related questions. These include whether state enforcement pursuant to UCITA or other contract law may be preempted by the Telecom Act rather than, as more commonly mooted, 17 U.S.C. § 301 of the Copyright Act.²²⁰ A second is whether section 105(b) of UCITA, and its more limited declaration that a contract term which violates recognized public policy is not enforceable, independently

220. See 17 U.S.C. § 301(a) (1994).

makes terms of the kind discussed in this article unenforceable as a matter of state contract law. Alas, neither question can be adequately addressed within the scope of this article.