

**INTELLECTUAL PROPERTY PROTECTION
RESTORATION ACT OF 2003**

HEARING
BEFORE THE
SUBCOMMITTEE ON COURTS, THE INTERNET,
AND INTELLECTUAL PROPERTY
OF THE
COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

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INTELLECTUAL PROPERTY PROTECTION RESTORATION ACT OF 2003

TUESDAY, JUNE 17, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COURTS, THE INTERNET,
AND INTELLECTUAL PROPERTY,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Subcommittee met, pursuant to call, at 4:30 p.m., in Room 2141, Rayburn House Office Building, Hon. Lamar Smith (Chair of the Subcommittee) presiding.

Mr. SMITH. The Subcommittee on Courts, the Internet, and Intellectual Property will come to order.

Unfortunately, we just had some votes called. So what I am going to do is give my opening statement, and then we will need to, unfortunately, take about 20 to 25 minutes to catch three votes, not just one vote. We are starting a little bit early. The Ranking Member, Mr. Berman, is actually caught in traffic on the 14th Street Bridge coming in from California, so he will be here momentarily and does not object to our starting. I will recognize myself for an opening statement, and then, as I say, we will have to break.

Today, the Subcommittee will consider H.R. 2344, the "Intellectual Property Protection Restoration Act of 2003."

In 1790, Congress passed the first intellectual property protection laws. As a result, the intellectual property of the United States is the envy of the world. It is one of the top U.S. exports, generates billions of dollars in revenue, creates jobs, and enriches the lives of the American people.

Since the enactment of these laws, it was understood that the States were subject to suit for intellectual property infringement in Federal court, notwithstanding the sovereign immunity States enjoy under the 11th amendment.

Based on its Article I, Commerce Clause, powers, Congress specifically expressed its intent to abrogate the 11th amendment immunity by enacting three statutes subjecting the States to suit in Federal court for damages resulting from State infringement of patents, trademarks, and copyrights. However, in 1999, the Supreme Court issued three rulings that invalidated these statutes.

These decisions adversely impact intellectual property owners and thousands employed in the industry. States now have the ability to infringe copyrights, patents, and trademarks with impunity, and States are increasingly using this as a defense to infringement claims. This is particularly frustrating for intellectual property owners, because States are also owners of copyrights, patents, and

trademarks, and can sue for infringement of their intellectual property.

In one example of this disturbing trend, hundreds of pirated software programs were found on computers owned by a Maryland State hospital. Damages ranged from \$250,000 to \$750,000. Although the hospital initially engaged in settlement negotiations, it ultimately shielded itself from liability by declaring sovereign immunity. This alarming behavior is permitted under the Supreme Court's decisions, a result that clearly conflicts with the spirit of Article I, Section 8 of the Constitution.

Given the Supreme Court's response to previous Congressional attempts to resolve this problem, Congress, affected Government agencies, and the intellectual property community have carefully considered possible solutions that would protect the rights of all intellectual property owners while passing constitutional muster.

H.R. 2344 is a balanced solution to the growing problem of State infringement of intellectual property. It prevents the award of damages for infringement of intellectual property owned by a State if that State has not waived its immunity under the 11th amendment for infringement of intellectual property.

This approach, in my judgment, is fair. If States are going to take advantage of intellectual property laws for their own benefit, they should also be willing to enforce the laws for the benefit of others. To me, these are two sides of the same patented coin.

That concludes my opening statement.

Mr. SMITH. I will recognize the Ranking Member, who quickly got across that 14th Street Bridge, for his opening statement. And we are glad he is here.

Mr. BERMAN. As it rained for the 13th day of 17 days in June, I do appreciate, Mr. Chairman, you scheduling the hearing and accommodating the difficulties of my schedule and having to be in Los Angeles yesterday. And I am glad I made it.

H.R. 2344, which I am cosponsoring, will rectify a fundamental unfairness that several 1999 court decisions have created in the Federal intellectual property decision system.

In those three cases, the Supreme Court and the Fifth Circuit found that, despite expressing a specific intent to do so, Congress had not appropriately abrogated State sovereignty immunity from suit for intellectual property infringements. In striking down the three intellectual laws, these decisions gave States immunity in State and Federal courts against money-damages suits for intellectual property infringements.

What is the practical effect of these decisions? These decisions mean collectively that States can fully benefit from the protection of their own intellectual property, while freely infringing the intellectual property of others. In other words, States can have their cake and eat it too.

The States are stock piling plenty of cake these days. Through their involvement in a growing number of commercial enterprises, often in direct competition with private actors, States have become huge beneficiaries of the intellectual property system. State-owned entities include publishing houses, radio stations, restaurants, and hospitals. States develop drugs, medical technologies, and commer-

cial software products and sell a variety of trademarked merchandise.

The profits generated from these State-run enterprises add up. According to the Association of University Technology Managers, the University of California system earned \$67 million in patent royalty income in 2001, the University of Florida \$62 million, University of Washington \$25 million.

There is also evidence that the States infringe intellectual property rights and increasingly use their immunity to shield themselves from infringement liability. The Chairman cited an example of that in his opening statement. I have another example, involving my own State of California, to add to this growing list. Biomedical Patent Management Corporation, a San Diego-based patent holding company, alleges that the California Department of Health Services is infringing its patent for a method for assessing placental dysfunction. The BPMC patent covers a groundbreaking advance in prenatal screening for fetal chromosomal abnormalities, especially Down's Syndrome. Using the procedures described by the patent, obstetricians make informed recommendations to pregnant women on whether expensive invasive procedures, such as amniocentesis, are warranted. A majority of the prenatal screens performed nationwide are licensed under this patent. All large private-sector laboratories that perform these prenatal services covered by the patent are licensed. The only large infringer of the patent is the California Department of Health Services which, under State law, has exclusive responsibility for prenatal screening.

In 1997, the Department declined BPMC's offer to license the patent, and in 1998 they sued. As its first affirmative defense, the State of California asserted that it does not have jurisdiction under the 11th amendment. When it became clear, based on the 1999 *Florida Prepaid* decision that the State would prevail, BPMC voluntarily dismissed the case. So, their patent is infringed with impunity.

H.R. 2344 requires States to waive their immunity from suit for IP infringements in order to secure federally created intellectual property rights. In essence, the waiver provisions give States a choice: Keep their immunity and forfeit future intellectual property rights, or subject themselves to intellectual property suits and be free to secure IP rights of their own.

It also provides remedies when State infringement of intellectual property rights rises to level of a constitutional violation. If a State copyright infringement constitutes an unconstitutional taking under the 5th amendment as incorporated by the 14th, an aggrieved copy right owner can seek compensation under this bill.

I yield back, Mr. Chairman, the balance of my time.

Mr. SMITH. Thank you, Mr. Berman, for your opening statement.
[The prepared statement of Mr. Berman follows:]

PREPARED STATEMENT OF THE HONORABLE HOWARD L. BERMAN, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman,

Thank you for scheduling the hearing at this unusual time. I co-sponsored H.R. 2344 with you because I consider it a very important piece of legislation, and didn't want to miss the Subcommittee hearing on it.

H.R. 2344 would rectify a fundamental unfairness that several 1999 court decisions have created in the federal intellectual property system. In the *College Savings*, *Florida Prepaid*, and *Chavez* decisions, the Supreme Court and Fifth Circuit found that, despite expressing a specific intent to do so, Congress had not appropriately abrogated state sovereign immunity from suit for intellectual property infringements. In striking down the Copyright Remedy Clarification Act (CRCA), Patent Remedy Act (PRA), and Trademark Remedy Clarification Act (TRCA), these decisions gave states immunity in state and federal courts against money damages suits for intellectual property infringements.

What is the practical effect of these decisions? Collectively, these decisions mean that states can fully benefit from the protection of their own intellectual property, while freely infringing the intellectual property of others. In other words, states can have their cake and eat it too.

The states are stockpiling plenty of cake these days. Through their involvement in a growing number of commercial enterprises, often in direct competition with private actors, states have become huge beneficiaries of the intellectual property system. State-owned entities include publishing houses, radio stations, restaurants, and hospitals. States develop drugs, medical technologies, and commercial software products, and sell a variety of trademarked merchandise.

The profits generated by these state-run enterprises add up. According to the Association of University Technology Managers, the University of California system earned \$67 million in patent royalty income in 2001, the University of Florida earned \$62 million, and the University of Washington \$25 million. In its most recent annual report, the National Collegiate Athletic Association states that it expects to earn \$370 million in 2003 from licensing the exclusive rights to carry copyrighted broadcasts of NCAA sporting events. The public university members of the NCAA get their fair share of this broadcast money, which thus ends up in state coffers.

There is also evidence that states infringe intellectual property rights, and increasingly use their immunity to shield themselves from infringement liability. An October 2001 GAO study showed that, between 1985 and 2001, at least 58 intellectual property lawsuits had been brought with a State as one of the defendants, while a larger number had been settled out of court. Since 2001, a number of new state infringements have come to light. I understand our witness from the Software and Information Industry Association will describe some of these new examples of state infringement. A Senate Judiciary Committee hearing in February 2002 outlined other, new state infringements.

I have another example, involving my own State of California, to add to this growing list. Biomedical Patent Management Corporation, a San Diego-based patent holding company, alleges that the California Department of Health Services is infringing its patent for a method for assessing placental dysfunction.

The BPMC Patent covers a groundbreaking advance in prenatal screening for fetal chromosomal abnormalities, especially Down Syndrome. Using the procedures described by the BPMC Patent, obstetricians make informed recommendations to pregnant women on whether expensive, invasive procedures such as amniocentesis are warranted. Presently, a majority of the prenatal screens performed nationwide are licensed under the BPMC Patent. Indeed, all large, private sector laboratories that perform prenatal services covered by the BPMC patent are licensed.

The only large infringer of the BPMC patent is the California Department of Health Services ("Cal. DHS"), which under state law has exclusive responsibility for the prenatal screening covered by the BPMC Patent. In 1997, Cal. DHS declined BPMC's offer to license the BPMC patent. So, in 1998, BPMC sued Cal. DHS for patent infringement. As its first affirmative defense, Cal. DHS asserted that the U.S. District Court "does not have jurisdiction under the Eleventh Amendment of the United States Constitution." When it became clear, based on the 1999 *Florida Prepaid* decisions, that Cal. DHS would prevail on its claim of sovereign immunity, BPMC voluntarily dismissed the case. As a result, Cal. DHS to this day infringes the BPMC patent with impunity.

Therefore, it is clear that states garner enormous profits from their own intellectual property, while sometimes brazenly infringing the intellectual property of others. To the extent that the law protects the intellectual property of one class of actors, but does not correspondingly require that class of actors to respect the intellectual property rights of others, the law is distinctly unfair and imbalanced. Congress needs to remedy this fundamentally unfair situation, and I believe H.R. 2344 is the appropriate vehicle for doing so.

H.R. 2344 requires states to waive their immunity from suit for IP infringements in order to secure federally-created intellectual property rights in the future. In essence, the waiver provisions of H.R. 2344 give states a choice: they can keep their

immunity and forfeit future intellectual property rights, or subject themselves to intellectual property suits and be free to secure IP rights of their own.

H.R. 2344 also provides remedies when state infringement of intellectual property rights rises to the level of a constitutional violation. For instance, if a state copyright infringement constitutes an unconstitutional taking under the Fifth Amendment, as incorporated by the Fourteenth, the aggrieved copyright owner can seek compensation.

I see H.R. 2344 as a measured and proportionate mechanism to address the fundamental unfairness created by *Florida Prepaid* and related cases. I look forward to working with the Chairman on moving this legislation through Congress.

I yield back the balance of my time.

Mr. SMITH. Without objection, the opening statements of other Members, who wish to submit opening statements, will be made a part of the record.

We appreciate the presence of the gentleman from Wisconsin, Mr. Green, the gentleman from North Carolina, Mr. Watt, and the Ranking Member of the full Judiciary Committee, Mr. Conyers of Michigan.

I will introduce the witnesses, and we will go as far as we can until we have to leave for votes.

Our first witness is the Honorable Marybeth Peters, the Register of Copyrights for the United States. She also has served as acting General Counsel of the Copyright Office, and Chief of Both the Examining, Information, and Reference Divisions. She authored the book "The General Guide to the Copyright Act of 1976".

Our next witness is Leslie Winner, Vice President and General Counsel of the University of North Carolina. Ms. Winner is responsible for the legal affairs of the 16-campus university system. She received her AB from Brown University and her JD from Northeastern University School of Law.

Our next witness is Mark Bohannon, General Counsel and Senior Vice President of Public Policy for the Software and Information Industry Association. Mr. Bohannon is responsible for their legal and public policy agenda. Mr. Bohannon is a graduate of the School of Foreign Service at Georgetown University and the George Washington University Law School.

Our last witness is Paul Bender, who is Counsel to Meyer & Klipper, specializing in the areas of constitutional law and appellate litigation. Mr. Bender is a Professor of Law at the Arizona State University College of Law. He was Dean of the Arizona State University College of Law from 1984 to 1989. He graduated from Harvard College, cum laude, and from Harvard Law School, magna cum laude.

Welcome to you all. We have your written statements. Please confine your testimony to 5 minutes.

Mr. SMITH. Ms. Peters, we will begin with you.

STATEMENT OF HONORABLE MARYBETH PETERS, REGISTER OF COPYRIGHTS, COPYRIGHT OFFICE OF THE UNITED STATES LIBRARY OF CONGRESS

Ms. PETERS. Thank you, Mr. Chairman.

Mr. Chairman, Mr. Berman, Members of the Subcommittee, thank you for inviting me to present my views on this important issue. Let me begin by thanking you, Mr. Chairman, for introducing the legislation that is the subject of this hearing.

H.R. 2344 would rectify the imbalance created by the Supreme Court's June 1999 rulings on State sovereign immunity on intellectual property. H.R. 2344 is a carefully balanced bill, providing copyright owners with effective tools to restore their ability to obtain appropriate remedies for infringement by States while remaining within Congress's constitutional authority. The Copyright Office strongly supports enactment of H.R. 2344.

As a result of the Supreme Court's rulings, copyright owners are unable to obtain monetary relief under the Copyright Act against a State, State entity, or State employees unless the State waives its immunity. The ability of copyright owners to protect their property and to obtain complete relief when their rights are violated is central to the balance of interest in the Copyright Act.

By denying that opportunity to copyright owners in cases where the infringers are within the umbrella of a State's sovereign immunity the Supreme Court rulings dilute the incentive for authors, performers, and producers to both create and disseminate works for the benefit of the public.

I do not accept the proposition that copyright owners must or should endure future infringements without an adequate and just remedy. If the Supreme Court's decisions have effectively blocked Congress from directly abrogating the State's immunity, except in the narrowest of circumstances, then it is important that Congress consider other legislative proposals such as those in this bill, and to provide incentives to States to waive their immunity voluntarily by conditioning the receipt of a gratuity from the Federal Government on such waiver. Only in this way can the proper balance and basic fairness be restored.

The layered approach of this bill is designed to provide copyright owners with the best chance of getting their day in court. It is a balanced approach, respectful of States, and carefully crafted to comply with the most recent Supreme Court rulings. There are three main components.

First, a system designed to encourage States to waive their immunity from Federal court suits seeking monetary relief for infringement of intellectual property. It does this by granting the benefit of fully-enforceable intellectual property rights only to those States that waive.

Second, a carefully circumscribed abrogation of State sovereign immunity in the intellectual property field to provide a remedy against States that choose not to waive their immunity.

And, finally, a codification of the judicially made rule that, notwithstanding a State's sovereign immunity, the employees of a State may be enjoined by a Federal court from engaging in illegal action.

I believe the most important part of this bill is the waiver provision, which would deny States that do not waive their immunity the ability to recover monetary relief when they seek to enforce their own intellectual property rights. Where a State waives its immunity, it can seek monetary relief. This approach is reasonable, proportionate, and appropriate.

I hope that this incentive will be successful. States acknowledge that they derive significant revenue from the commercial exploitation of their intellectual property. The price of being unable to

obtain monetary relief with the infringement of future intellectual property should give States good cause to accept the bargain that Congress offers with this legislation.

Last year, at the request of the Senate Judiciary Committee, the Copyright Office mediated negotiations among interested parties on legislation very similar to H.R. 2344. The negotiation sessions were intense, but in the end they did not bear fruit. It is our hope that progress can be made in correcting the imbalance in intellectual property protection that has existed since the Supreme Court's decisions, and the Copyright Office stands ready to assist you in any way. It is only logical to expect that, without an alteration of the status quo, infringements by States are likely to increase, especially in our digital, on-line environment.

The Supreme Court's rulings and the rights of States must surely be respected, but the current state of affairs is unjust and unacceptable. And it is appropriate for Congress to use its authority to prevent State sovereign immunity from becoming a tool of injustice.

This bill manages to do that, and I look forward to its enactment. Thank you.

Mr. SMITH. Thank you, Ms. Peters.

[The prepared statement of Ms. Peters follows:]

PREPARED STATEMENT OF MARYBETH PETERS

Mr. Chairman, Congressman Berman, Members of the Subcommittee, thank you for inviting me to appear before the Subcommittee today to discuss H.R. 2344, the "Intellectual Property Restoration Act," which is intended to rectify the imbalance created by the Supreme Court's rulings in 1999, that broadened the applicability of States' Eleventh Amendment immunity to claims for intellectual property infringement, including copyright. H.R. 2344 is a carefully balanced bill that provides copyright owners with effective tools to restore their ability to obtain appropriate remedies for infringement by States while remaining, we believe, within Congress' constitutional authority. The Copyright Office supports enactment of H.R. 2344.

I. BACKGROUND

The broadened interpretation of state sovereign immunity and its resulting application to remedies available under the Copyright Act is a relatively recent phenomenon. The United States enacted the first Copyright Act in 1790. There is no judicial decision in the ensuing 173 years that failed to subject States to the full range of remedies available under the Copyright Act on the grounds of sovereign immunity.

Then, in 1962, the United States Court of Appeals for the Eighth Circuit dismissed a copyright infringement suit against a state agency on sovereign immunity grounds.¹ However, that case did not usher in a new era for state sovereign immunity. Just two years later, the Supreme Court issued its ruling in *Parden v. Terminal Railway of Alabama (Parden)* in which it held that "when a State leaves the sphere that is exclusively its own and enters into activities subject to congressional regulation, it subjects itself to that regulation as fully as if it were a private person or corporation."²

Over time, the decision in *Parden* was gradually eroded. More than twenty years after *Parden*, in *Atascadero State Hospital v. Scanlon (Atascadero)*,³ the Court reversed itself on the legislative requirements necessary to find congressional intent to abrogate state sovereign immunity. The Court held that in the instant case, the Eleventh Amendment barred recovery from the States because a "general authorization for suit in federal court is not the kind of unequivocal language sufficient to abrogate the Eleventh Amendment."⁴ Rather, what is required for congressional ab-

¹ *Wihtol v. Crow*, 309 F.2d 777 (8th Cir. 1962).

² 377 U.S. 184, 196 (1964).

³ 473 U.S. 234 (1985).

⁴ *Id.* at 246.

rogation of state sovereign immunity is that the federal statute be “unmistakably clear” that States are included in the defendant class.⁵

The decision in *Atascadero* created great uncertainty as to which federal laws were unmistakably clear in their intent to subject States to liability and which were not. Applying this standard to the Copyright Act, some courts held in favor of the States’ immunity,⁶ to the great distress of copyright owners.

In 1987, Congress requested that the Copyright Office produce a report on the current state of the law in the area of the enforcement of copyright against state governments. On June 27, 1988, the Copyright Office submitted its report, *Copyright Liability of States and the Eleventh Amendment*. That report noted that copyright owners “caution that injunctive relief is inadequate—damages are needed. And if states are not responsible for remunerating copyright owners, as are all other users subject to limited statutory exceptions, proprietors warn that: marketing to states will be restricted or even terminated; prices to other users will increase; and the economic incentives, even ability, to create works will be diminished.” Given these concerns and the analysis of the case law as it stood at that time, the report concluded that “copyright proprietors clearly demonstrate the potential for immediate harm to them.”

In 1990, Congress responded to the situation created by the ruling in *Atascadero* by enacting the descriptively-named Copyright Remedy Clarification Act (CRCA).⁷ That law added provisions to Title 17 which clearly provide that States “shall not be immune, under the Eleventh Amendment of the Constitution . . . or any other doctrine of sovereign immunity, from suit in Federal Court . . . for a violation of the exclusive rights of a copyright owner. . . .”⁸ This clear statement left little doubt that Congress intended to make States liable for infringement and to abrogate their sovereign immunity. Thus, once again, the apparent uncertainty about the immunity of States from suits for damages for copyright infringement was removed. A similar law for patents and one for trademarks were enacted two years later.

These Acts stood until the Supreme Court’s triad of opinions on June 23, 1999.⁹ It is worth noting that all three of these cases were decided by the same 5–4 vote and all three engendered strong dissenting views.

The decision in *Alden* undergirded the other two decisions. In that case, John Alden and other employees of the State of Maine filed suit in state court in Maine against that state for violation of the overtime provisions of the Fair Labor Standards Act, a federal law. The U.S. Supreme Court affirmed the decision of the Maine Supreme Judicial Court that the State’s sovereign immunity barred the suit, holding that:

the States’ immunity from suit [in the State’s own courts and in federal courts] is a fundamental aspect of the sovereignty which the States enjoyed before the ratification of the Constitution, and which they retain today . . . except as altered by the plan of the Convention or certain constitutional Amendments.¹⁰

In the second of the June 23 cases, *College Savings*, the Court considered whether Congress had the authority to abrogate state sovereign immunity from lawsuits under section 43(a) of the Lanham Act. Under the Court’s earlier holding in *Seminole Tribe of Florida v. Florida*,¹¹ there is only one source of constitutional authority from which Congress may abrogate state immunity: the enforcement power in Section 5 of the Fourteenth Amendment.¹²

The Fourteenth Amendment instructs in relevant part that “No State shall . . . deprive any person of . . . property, without due process of law.”¹³ Because the Court held that *College Savings* did not allege deprivation of a property right within the meaning of the Fourteenth Amendment, the avenue of congressional abrogation of state immunity was closed.¹⁴

⁵ *Id.* at 242.

⁶ See *Woelffer v. Happy States of America, Inc.*, 626 F. Supp. 499 (N.D. Ill. 1985); *BV Engineering v. UCLA*, 657 F. Supp. 1246 (C.D. Cal. 1987), *aff’d*, 858 F.2d 1394 (9th Cir. 1988), *cert. den.*, 109 S. Ct. 1557 (1989).

⁷ Pub. L. No. 101–553.

⁸ 17 U.S.C. § 511.

⁹ *College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666 (1999) (*College Savings*); *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Savings Bank*, 527 U.S. 627 (1999) (*Florida Prepaid*); *Alden v. Maine*, 527 U.S. 706 (1999) (*Alden*).

¹⁰ *Id.* at 713.

¹¹ 517 U.S. 44 (1996).

¹² *College Savings* at 670.

¹³ U.S. Const., amend. XIV.

¹⁴ *College Savings* at 673.

Next, the Court turned to the question of implied state waiver of immunity. Invoking the precedent of *Parden*, Petitioner College Savings sought to show that Florida had impliedly waived its immunity by participating in a scheme that is enforceable in federal court.¹⁵ Not only did the Court reject this argument, but it overruled *Parden* and renounced the doctrine of implied waiver of state immunity.¹⁶

The Court's holding requires that a state's waiver be explicit and voluntary in order to be effective. However, Congress may provide incentives to the State by conditioning use of its discretionary authority, such as that found in the Spending Clause and the Compact Clause, on state waiver.¹⁷

In the third of the three opinions issued on June 23, *Florida Prepaid*, the Court considered whether Congress had the authority to abrogate state sovereign immunity from lawsuits under the Patent Act. The Court acknowledged that patents are property within the meaning of the Fourteenth Amendment.¹⁸ However, the Court held that the legislative enactment at issue in this case did not fall within Congress' Fourteenth Amendment power for three reasons.

First, Congress "must identify conduct transgressing the Fourteenth Amendment's substantive provisions, and must tailor its legislative scheme to remedying or preventing such conduct."¹⁹ The Court found that Congress failed to meet this burden because it did not identify a pattern of patent infringement by states.²⁰

Second, the Court recognized that patent infringement by a state is not a violation of the Fourteenth Amendment if the state provides a remedy, that is, due process.²¹ Because the statute was drafted to apply to all States, without regard to state-provided remedies, the Court held that it went beyond the power conveyed by the Fourteenth Amendment.²²

Third, the Court noted that "a state actor's negligent act that causes unintended injury to a person's property does not 'deprive' that person of property within the meaning of the Due Process Clause."²³ Because a claim for patent infringement requires no showing of intent in order for the plaintiff to prevail, the Court held that the legislative enactment at issue in this case was again overbroad.

Although the Supreme Court has not ruled directly on the constitutionality of the CRCA, the Fifth Circuit applied the Supreme Court's recent rulings in *Chavez v. Arte Publico Press (Chavez)*.²⁴ That case involved a suit by an author claiming copyright infringement of her book by the University of Houston, a state university.

The court followed the analysis in *Florida Prepaid*, first inquiring whether Congress had identified a pattern of infringement by States. While noting that the legislative history in support of the CRCA, which included the 1988 report of the Copyright Office, was somewhat more substantial than that of the PRCA, the court found that the record was still inadequate to support the legislative enactment. Second, the court noted that in adopting the CRCA, Congress "barely considered the availability of state remedies for infringement."²⁵ That the legislative history did not meet requirements the Court articulated a decade after the law was enacted is not surprising. Thus, the Fifth Circuit refused to enforce the CRCA.

The same result was reached in another Fifth Circuit case, *Rodriguez v. Texas Comm'n on the Arts*,²⁶ in a brief opinion that presumably is based upon the same rationale as that circuit's decision in *Chavez*. Given the current Supreme Court precedent, it is difficult to find fault with the ruling in *Chavez*, and we believe that the CRCA would most likely be held unconstitutional by the current Supreme Court.

In 2001, the General Accounting Office issued a report that surveyed the recent legal landscape for the number of infringement actions against states and the availability of remedies for infringements by States.²⁷ That report reached the conclusions that there are relatively few infringements of intellectual property rights by States and that there are few if any remedies available to right holders whose rights are infringed.

That report also contains the text of a letter that the Copyright Office sent to the GAO regarding the study and report. In that letter we expressed no surprise at the

¹⁵ *Id.* at 676.

¹⁶ *Id.* at 680.

¹⁷ *Id.* at 686–87.

¹⁸ *Florida Prepaid* at 637.

¹⁹ *Id.* at 639.

²⁰ *Id.*

²¹ *Id.* at 642–43.

²² *Id.* at 646–47.

²³ *Id.* at 645 (citing *Daniels v. Williams*, 474 U.S. 327, 328 (1986)).

²⁴ 204 F.3d 601 (5th Cir. 2000).

²⁵ *Id.* at 606.

²⁶ 199 F.3d 279 (5th Cir. 2000).

²⁷ *Intellectual Property: State Immunity in Infringement Actions*, GAO–01–811 (Sept. 2001).

relatively low number of infringements found. We were not surprised because we recognized the difficulties in

obtaining accurate and complete records of claims against states and the relatively recent phenomenon of state sovereign immunity trumping copyright liability. I understand that one of my fellow witnesses at today's hearing will present examples of States refusing to pay any amount of damages for past infringements of copyrights, citing their Eleventh Amendment immunity.

The Supreme Court's latest decision on sovereign immunity, issued just last month, gives us some small cause for hope that the Court's approach may develop some flexibility. In *Nevada Department of Human Resources v. Hibbs*,²⁸ the Court did find that Congress successfully abrogated States' sovereign immunity in the Family Medical Leave Act ("FMLA"), which permitted the petitioner to sue the State of Nevada for wrongful discharge based on his taking leave to care for an ailing spouse. In doing so, the Court reaffirmed the analytical framework in its recent cases, finding an extensive record of the States "unconstitutional participation in, and fostering of, gender-based discrimination in the administration of leave benefits, [which was] weighty enough to justify the enactment of prophylactic [Fourteenth Amendment] legislation."²⁹ The Court gave at least some weight to the fact that "Congress reasoned [that some Fourteenth Amendment violations may] be difficult to detect on a case-by-case basis."³⁰

We hope that this signals some willingness on the Court's part to allow Congress to invoke its Section 5 authority under the Fourteenth Amendment where the violations at issue are hard to detect, as is the case with copyright infringement. As the GAO wrote in its report, "[I]dentifying all past accusations of intellectual property infringement against states over any period is difficult, if not impossible. . . ."³¹

In the end, however, we believe, however, that even a few acts of infringement by States, if unremedied, ought to be sufficient to justify congressional abrogation of state sovereign immunity. Moreover, the Congress is entirely within its authority to condition the exercise of its discretionary authority to provide a State what amounts to a federal gratuity on a waiver of sovereign immunity by that State regardless of the extent of a record of known infringements.

Thus, like the recent, brief period in the early 1960's and the late 1980's, we are again faced with the issue of state sovereign immunity being interpreted and applied in a manner which inhibits the proper functioning of the Copyright Act.

II. THE CURRENT IMBALANCE

At the outset, we acknowledge that the problems addressed by H.R. 2344 apply to all forms of intellectual property. However, as Register of Copyrights, my remarks will be confined to intellectual property covered by Title 17 of the U.S. Code. The effect of the Court's 1999 decisions is that copyright owners are unable to obtain monetary relief³² under the Copyright Act against a State, state entity, or state employee unless the State waives its immunity. The availability of monetary awards through lawsuits filed in state courts is highly doubtful.³³ Actions such as takings claims and tort are not well suited to protect the interests essential to intellectual property and courts may not be willing to expand those areas of law. Further, the States have immunity in their own courts as well as in Federal court,³⁴ so the State would have to waive its immunity in any event.

The ability of copyright owners to protect their property and to obtain complete relief when their rights are violated is central to the balance of interests in the Copyright Act. By denying that opportunity to copyright owners in cases where the infringers are under the umbrella of a State's sovereign immunity, the Supreme Court's decisions dilute the incentive for authors, performers, and producers to create. If the diminution of incentives to create results in a diminution of creative output, as may reasonably be assumed, the American economy and culture will be poorer for it.

We would like to think that States and State employees will respect the copyright laws despite the unavailability of any monetary remedy when they infringe, but we

²⁸ 123 S. Ct. 1972, 2003 U.S. LEXIS 4272 (2003).

²⁹ *Id.* at *24.

³⁰ *Id.* at *27.

³¹ GAO at 7.

³² Monetary relief for copyright infringement may consist of some combination of actual damages, defendant's profits, statutory damages, litigation costs, and attorney's fees. 17 U.S.C. §§ 504, 505.

³³ *Id.* at 13-24.

³⁴ *Id.* at 23-24; *Alden* at 712.

are concerned that in light of the Supreme Court’s 1999 rulings the available legal remedies will be insufficient to ensure that result.

We do not mean to suggest by this that States and their employees are any less willing to abide by the law than the American public as a whole. However, recent experiences in the internet environment suggest where some individuals are given the ability to copy and enjoy creative works without paying for them, they will do so without regard to the harm it causes. Further, logic dictates that if a segment of people will not be held fully accountable for certain actions, they may be less likely to restrict themselves in those actions. As it was stated in Federalist No. 51, albeit in a different context, “[i]t may be a reflection on human nature, that such devices should be necessary to control the abuses of government. . . . If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary.”

In sum, we do not accept the proposition that copyright owners must or should endure future infringements without an adequate and just remedy. If the Supreme Court’s decisions have effectively blocked Congress from directly abrogating the State’s immunity, then it is appropriate for Congress to consider other legislative responses, such as those in this bill—providing incentives to States to waive their immunity voluntarily by conditioning the receipt of a gratuity from the Federal Government on such waiver. Only in this way can the proper balance, and basic fairness, be restored.

III. ELEMENTS OF H.R. 2344

The Copyright Office is gratified that you have undertaken to remedy this situation. H.R. 2344, is a layered approach, designed to provide copyright owners with the best chance of getting their day in court. It is also a balanced approach, respectful of States and carefully crafted to comply with the most recent Court rulings.

H.R. 2344 contains three main components: a system designed to encourage States to waive their immunity from federal court suits seeking monetary relief for infringement of intellectual property by granting the benefit of fully enforceable intellectual property only to those States that do so, a carefully circumscribed abrogation of State sovereign immunity in the intellectual property field to provide a remedy against States that choose not to waive their immunity, and a codification of the judicially-made rule that notwithstanding a State’s sovereign immunity, the employees of a State may be enjoined by a Federal court from engaging in illegal action.

A. *Incentive to Waive*

The bill provides significant incentives for a State to waive its immunity, but does so in a way that is inherently proportional and fair to the States and copyright owners. The bill is designed so that a State which chooses not to waive its immunity from monetary damages in intellectual property infringement cases is unable to obtain damage awards when it seeks to enforce its own intellectual property rights. If a State does waive its immunity, then it obtains the benefit of being able to seek monetary relief. This approach is reasonable, proportionate, and appropriate.

We are optimistic that this incentive will be successful in encouraging States to level the playing field by waiving their immunity. States freely acknowledge that they derive significant revenue from the commercial exploitation of their intellectual property. The price of being unable to obtain monetary relief for the infringement of future intellectual property should give States good cause to consider accepting the bargain that Congress offers with this legislation. Of course, States would have even greater incentive to waive their immunity if their ability to obtain injunctive relief was also conditioned on such waiver. But out of concern for not crossing the line between encouragement to the States and coercion of the States, H.R. 2344 elects to follow a symmetrical approach—to deny a State exactly what is denied to other right holders if the State refuses to waive its immunity. We respect that choice, and we believe that the bill can effectively accomplish its goals as written.

We feel confident that the bill is within Congress’ constitutional authority. The Supreme Court has made clear that the sovereign immunity of a State is “a personal privilege which it may waive at its pleasure.”³⁵ Further, the Court wrote that Congress may properly seek to induce States to waive their immunity by conditioning “the denial of a gift or gratuity . . .”,³⁶ such as approval of an interstate

³⁵ *College Savings*, at 675 (quoting *Clark v. Barnard*, 108 U.S. 436, 447 (1883)).

³⁶ *College Savings* at 687.

compact³⁷ or its grant of funds to a State,³⁸ on such waiver. That is precisely what this bill does.

The Constitution grants to Congress the authority “To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . .”³⁹ Of course, we recognize this as the authority by which Congress may provide copyright protection for qualifying works. This authority is entirely permissive. Congress may choose not to extend copyright protection at all, it may extend that protection subject to certain conditions, or it may extend that protection only to certain classes of authors. A particularly relevant example is the choice that Congress has made to withhold copyright protection from “any work of the United States Government. . . .”⁴⁰ Similarly, Congress may withhold copyright protection from any work of any state government. That it has chosen not to do so to date represents a gift from the Congress to the States. And, as the Supreme Court has opined, Congress may condition the grant of such a gratuity upon a State’s waiver of its sovereign immunity in the directly related field of suits for monetary relief under the Federal intellectual property laws.⁴¹

The fact that Congress has allowed States to enjoy copyright protection for their works for so long in no way alters the fact that providing such protection to future state works remains a gift from the Federal Government or diminishes its constitutionally granted discretion to change that policy. H.R. 2344 would effectuate a change in that policy, offering States an opportunity to receive full copyright protection for their works in the future in exchange for waiver of sovereign immunity to infringement claims.

B. Abrogation

While we are optimistic that most States will waive their immunity under the system this bill provides, there is a distinct possibility that some States, perhaps more than a few, will not. In that case, it is necessary to provide copyright owners with at least a chance to have their day in court. To that end, H.R. 2344 includes a second element of the bill: a provision for the abrogation of state sovereign immunity, pursuant to Congress’ authority under the Fourteenth Amendment.

The Supreme Court’s decision in *Florida Prepaid* leaves Congress almost no leeway to accomplish an abrogation of State sovereign immunity that will place copyright owners on the same footing they were prior to the Court’s ruling. Not only must Congress have an extensive record of infringements, but the record must also include proof that adequate remedies in state court are not available, and possibly also that the infringements were willful.⁴² This standard appears nearly impossible to reach. We are baffled at the Court’s apparent decision that the Fourteenth Amendment requires the denial of copyright owners’ constitutional rights at epidemic proportions before it allows Congress to fully restore those rights.

Nonetheless, H.R. 2344 makes full use of the few tools left to Congress in this area. The result is an abrogation provision that applies only when it can be demonstrated on a case-by-case basis that the State has violated the Fourteenth Amendment. The Court has held that such narrowly-tailored abrogations do not require the support of the factual record that broader abrogations would.⁴³ The burden, therefore, of proving the necessary elements in order to overcome the State’s immunity, merely shifts from Congress to the individual right holder/plaintiff, who, in accordance with the ruling in *Florida Prepaid*, must demonstrate that there are no adequate state remedies and that the infringement was non-negligent. Thus, the abrogation provision in this bill is helpful only to those who can meet these additional burdens of proof beyond what is normally necessary to establish a prima facie case of infringement. In the final analysis, given the restrictions the Court has placed on Congress’ exercise of its Fourteenth Amendment authority, we believe that this is the best abrogation provision that courts will sustain under the precedent of *Florida Prepaid*.

C. Codification of Injunctive Relief

The third and final element of the bill is a codification of the judicially-made rule that notwithstanding the State’s immunity, state employees may be enjoined by Federal courts from engaging in illegal activity, such as infringement of copyrights.

³⁷ *Petty v. Tennessee-Missouri Bridge Comm’n*, 359 U.S. 275 (1959).

³⁸ *South Dakota v. Dole*, 483 U.S. 203 (1987).

³⁹ U.S. Const. Art. I, sec. 8.

⁴⁰ 17 U.S.C. § 105.

⁴¹ See *supra*, note 17.

⁴² See *supra*, notes 19–23.

⁴³ *Kimel v. Florida Board of Regents*, 528 U.S. 62, 81 (2000).

This doctrine was first articulated by the Supreme Court in *Ex Parte Young*.⁴⁴ The reasoning the Court followed was that state employees are covered by the umbrella of the State's sovereign immunity only to the extent they are acting within the scope of their official duties. Because a state employee may not violate Federal law in carrying out his duties, if he does so, he is by definition operating outside the scope of his official duties. And because he is acting outside the scope of his official duties, he is no longer protected by the State's sovereign immunity and the court may enjoin him from that activity.⁴⁵

Despite the long-standing recognition of this doctrine, some fear that the recent judicial supercharging of state sovereign immunity may be extended to nullify this venerable rule. Thus, we believe that it is wise to codify this doctrine in federal law.

IV. RECENT LEGISLATIVE EFFORTS

Last year, at the request of the Senate Judiciary Committee, the Copyright office mediated negotiations among interested parties. The negotiating sessions were intense but in the end, they did not bear fruit. It is our sincere hope that progress can be made in correcting the imbalance in intellectual property protection that has existed since the Supreme Court's decisions, and the Copyright Office stands ready to assist you in any way we can.

V. CONCLUSION

The current state of affairs is unjust and unacceptable. Only Congress has the power to remedy the existing imbalance. The Supreme Court's rulings and the rights of States must surely be respected, but it is appropriate for Congress to use its authority to prevent state sovereign immunity from becoming a tool of injustice. H.R. 2344 achieves the necessary goals within the constitutional limits and I look forward to its enactment.

Mr. SMITH. Ms. Winner, before you begin your testimony, I would like to recognize the gentleman from North Carolina, Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman. And I hesitate to intervene at this point for three reasons. Number one, I know you are in a hurry and you were trying to get these witnesses in before the bell rang. Number two, I am not even a Member of this Subcommittee. And number three, I hesitated to run the risk that I might diminish the value of Ms. Winner's testimony by informing you all that we were law partners for about 10 years prior to her moving on to the State Legislature and me moving on to the Congress. And, subsequently, she has become the counsel to the university system. But I did want to welcome her here, and I hope you all won't hold it against her.

Mr. CONYERS. You prejudiced her testimony.

Mr. WATT. She likes the State courts better than the Federal courts.

Mr. SMITH. Thank you, Mr. Watt. That is very interesting, and your association will not diminish her credibility. But I am afraid we are going to need to recess for about 20 minutes, and then we will be back and resume the testimony at that point. And let me inform Members we have three votes to answer the question.

[Recess.]

Mr. SMITH. The Subcommittee will come to order, and we will resume our testimony. And, Ms. Winner, if you will continue.

STATEMENT OF LESLIE WINNER, GENERAL COUNSEL AND VICE PRESIDENT, UNIVERSITY OF NORTH CAROLINA

Ms. WINNER. Thank you, Representative Smith and Members of the Subcommittee.

⁴⁴ 209 U.S. 123 (1908).

⁴⁵ *Id.* at 159-60.

I especially come here today to express the concerns of public universities that the sovereign immunity portion of this bill will severely hamper the ability of public universities to move their knowledge and research results into the commercial marketplace, to the detriment not only of public universities, but also to the detriment of the Nation's economy.

Congress has a long history of supporting the efforts of public universities to use their intellectual capacity and their research capacity to benefit agriculture, industry, and the Nation's economy. This is probably, the best example of this is the Bayh-Dole Act, which gives public universities and the other universities the ability to retain patents from Federally-funded research grants.

Universities are not, however, well-suited to move these inventions into the marketplace. They must depend on licensing these inventions to private existing or start-up companies. The incentive to these private companies to move the inventions in the marketplace is exclusivity that comes through the patent license which provides them the incentive to invest their expertise and resources into the commercialization.

The Bayh-Dole Act has been highly successful in moving knowledge and research from the universities into the economy. The Association of University Technology Managers estimates that in 1999, tech transfer put \$40 billion in to the U.S. economy, creating 260,000 jobs, and putting 2,000 products into the U.S. marketplace.

In North Carolina, the cooperation between public universities, private universities, and private industry in efforts such as the Research Triangle Park are essential to move research and knowledge into the economy. And this is especially important to North Carolina right now as our traditional industries such as textiles and tobacco are withering, and we must transform our State's economy into a knowledge-based economy.

The proposed legislation puts this success at substantial risk. Without intellectual property protection, public universities will not be able to move research results into the economy. Without the assurance of exclusive use, there will be no incentive for private businesses to invest in transforming research into marketable products. Under the proposed legislation, the universities cannot assure the exclusive use to the licensees unless the State waives immunity, and State universities, which intellectual property owned by the State entities, don't have the power to cause the State legislators to make this waiver. The State legislature or in some cases—in three cases, at least, a State constitutional amendment is needed, and the universities cannot procure this. Even though many State universities, such as the University of North Carolina, would recommend to their State legislators to waive sovereign immunity if this bill were to pass, we don't have any assurance that this will do so. The reason for this is that the 11th amendment and sovereign immunity are central to the Federal form of Government. When the States joined the union, they didn't completely give up their sovereignty, and sovereign immunity is central and an essential ingredient of sovereignty.

The States still take the sovereignty seriously, and we simply don't have any assurance that the passage of this bill would result in a widespread waiver. Rather, our fear is that the result is likely

to be widespread loss by public universities of our ability to protect our intellectual property.

I respectfully suggest that the evidence of the need for this legislation is not strong. In North Carolina, my search has shown one case against the University of North Carolina for any kind of intellectual property infringement in the last 20 years, and that one was 20 years ago. The GAO study showed few intellectual property accusations or actions against States. Cases that were decided by courts were decided in favor of States. And, as to universities, this lack of complaints about intellectual property infringement is not surprising because of the respect for intellectual property that is really central to the mission of universities and to the values of intellectually-based enterprise.

Within universities misdeeds, such as plagiarism and unauthorized use of other people's research, is taken extremely seriously and leads to severe internal sanctions both of students and faculty members.

In the public arena, there are strong political controls on State officials who disregard the private property rights of others.

In conclusion, I would like to say that this legislation carries with it a grave risk that it will cripple the ability of public universities to move important research developments into public use and into the economy, and that universities will have the substantial risk of being punished for misdeeds that they didn't commit and under conditions that they have no power to rectify.

Mr. SMITH. Thank you, Ms. Winner.

[The prepared statement of Ms. Winner follows:]

PREPARED STATEMENT OF LESLIE J. WINNER

I. INTRODUCTION

Public universities are gravely concerned about the impact H.R. 2344 would have on these institutions and their research and education programs. This legislation would require states to waive their sovereign immunity as a precondition for use of federal intellectual property laws by states and state entities. Although we believe that public universities would be willing to meet such a requirement, the decision to do so is not theirs to make but instead is a decision that must be made by the states themselves. There is strong evidence that states would not be willing to meet this requirement. The consequent loss of access to federal intellectual property law as stipulated in this legislation would have devastating consequences for public universities.

Before the Supreme Court's 1999 decision in *Florida Prepaid*, which affirmed sovereign immunity for intellectual property suits against states, public institutions of higher education treated intellectual property with the utmost care, respect, and caution. Like private institutions of higher education, they did so not to avoid liability for intellectual property infringement but because respect for intellectual property is inherent in the mission of these institutions and their public purposes. Therefore, it should not be a surprise that after *Florida Prepaid*, public institutions of higher education have not changed their behavior, and continue to act with care, respect and caution. The GAO's yearlong study on state immunity in intellectual property actions, undertaken specifically to determine the effect of *Florida Prepaid*, found no pattern of infringement by institutions of higher education. It would be counter-productive to the rewards of research and technology transfer, and contrary to the missions of higher education to act otherwise.

Public universities are major creators of intellectual property. As such, they recognize the importance of protecting their own intellectual property and respect the importance of using properly the intellectual property of others. That is why there is no evidence of systematic infringement of intellectual property by public institutions of higher education. Cooperative efforts with the private sector have brought thousands of inventions out of the campus and into the lives of countless individuals through technology transfer programs that move the results of fundamental re-

search into the private sector for development into useful products and processes, improving the human condition and producing broadly beneficial economic growth for our nation. In order to continue to do so, we must adhere to the highest principles and respect for intellectual property.

While H.R. 2344 is meant to level a perceived uneven playing field, the behavior of public universities is indistinguishable from that of private universities; they both operate on a functional level playing field consistent with their public-purpose missions, as noted earlier, yet the ultimate effect of this legislation could be to destroy the technology transfer programs at public institutions of higher education. This legislation would also expose other vulnerable institutional intellectual property to unscrupulous exploitation. Distance education courses, public service materials, textbooks and course materials, time-honored logos and mascots, public television programming, university press publications, and other valuable intellectual property would be at risk.

This is because the vast majority of public institutions of higher education are in no position to waive sovereign immunity—that is a decision for state legislatures or state constitutional amendments. Public institutions of higher education cannot guarantee, and cannot even anticipate, that they could convince the states to waive sovereign immunity as a whole—as this legislation requires. When this legislation was considered last year, *no* state gave any indication it would be willing to waive sovereign immunity, and both the National Governors Association and the National Association of Attorneys General opposed it.

By eliminating all protections for intellectual property held by a state or state agency unless the state, as a whole, waives its 11th Amendment sovereign immunity to suit in federal court for acts of infringement, the bill effectively destroys the ability of public universities to enforce patents, copyrights, and trademarks in federal court. It is fundamentally unfair to destroy the fruits of teaching, research, and public service by enacting legislation with requirements that we are in no position to respond to.

Under these circumstances, this legislation places universities in an untenable position: without any evidence of significant wrongdoing, public institutions of higher education would nonetheless be severely harmed by loss of federal intellectual property protection under circumstances over which they have no control. This is an outcome that is punishingly unfair to public universities and undeniably harmful to the greater interests of the nation.

II. THERE IS NO EVIDENCE THAT PUBLIC INSTITUTIONS OF HIGHER EDUCATION ABUSE THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS.

The GAO spent an entire year examining the issue of state immunity in infringement actions. At the end of the study the GAO concluded, “Few accusations of intellectual property infringement appear to have been made against the states either through the courts or administratively.” The GAO found only 58 lawsuits from 1985 to 2001 in which states and state entities were alleged to have infringed intellectual property. When compared to the total of all federal cases brought for alleged infringement during that time period, cases alleged against states and state agencies amount to only .045% of the total. Moreover, of all state and federal cases that were resolved by the courts, all were resolved in favor of the state. The GAO also reported that state agencies asserted that they had no incentive to infringe and, when confronted with an accusation, they investigate the matter thoroughly and resolve it.

Anticipating the findings in the GAO report, the Supreme Court, in *Florida Pre-paid*, found:

In enacting the Patent Remedy Act, however, Congress identified no pattern of patent infringement by the States, let alone a pattern of constitutional violations. Unlike the undisputed record of racial discrimination confronting Congress in the voting rights cases, Congress came up with little evidence of infringing conduct on the part of the States.

The GAO report and Supreme Court’s findings echo the experience of North Carolina where the Attorney General can confirm only one infringement case against a UNC institution in the last 20 years. All 16 UNC constituent institutions, like their sister institutions throughout the nation, have extensive education efforts, strong policies on intellectual property ownership and use, and sanctions to enforce those. This understanding of the importance of intellectual property rights makes infringement unlikely at a public institution of higher education. Moreover, as Professor Menell, Professor of Law at the University of California at Berkeley and Director

of the Berkeley Center for Law and Technology, has noted, states have strong social, bureaucratic, and economic constraints that discourage infringement.

III. THE PROPOSED LEGISLATION WOULD HAVE A DEVASTATING EFFECT ON TECHNOLOGY TRANSFER AND ECONOMIC DEVELOPMENT LOCALLY, REGIONALLY, AND NATIONALLY

In the same way that the Morrill Act's creation of land grant universities sought to develop our nation's vast natural resources, the Bayh-Dole Act seeks to develop our nation's vast knowledge resources. Bayh-Dole created a patent policy for federal agencies that fund research, which enables small businesses and non-profit organizations (including universities) to retain title to inventions created under the funded research and then to license those inventions for commercialization. The results of Bayh-Dole Act have confirmed the belief that Congress expressed in technology transfer as a way of remedying the loss of valuable inventions to the public domain—where private enterprise was not willing to develop technology that they couldn't protect.

The Association of University Technology Managers (AUTM) has reported that technology transfer and development in FY 1999 (conducted largely but not exclusively by universities) added about \$40 billion to the U.S. economy, supported 260,000 jobs, and helped to spawn new businesses, industries, and markets. AUTM also reported that at least 2000 products are presently available to the public that would never have been created in the absence of technology transfer, development, and licensing activities by AUTM members.

While Bayh-Dole has been a great success for over 20 years, bringing the fruits of research out of colleges and universities and into the market, Bayh-Dole requires that the intellectual property be licensed to commercial enterprises for development and introduction to the marketplace, with a preference for small businesses and with profit sharing for the inventors. Proposed H.R. 2344 would undercut this strategy and jeopardize much of this success.

North Carolina prides itself on the innovation and invention that forged unprecedented cooperation between its public and private institutions of higher education and with private enterprise. That innovation created, for example, the Research Triangle Park, where industry works with UNC at Chapel Hill, North Carolina State University, and Duke University, to develop and commercialize the genius of their cooperation. If any UNC institution were to fail to respect the intellectual property rights of others, the result would be self-destructive, because it would erode the fabric of the partnerships that make technology transfer work. Intellectual property rights are the essential basis upon which the cooperation among public and private higher education and private enterprise operates. This cooperation is a daily event and is the key to our State's economic development, progress, and prosperity, as we move to a knowledge economy. No UNC institution or leader would jeopardize that cooperation by ignoring intellectual property rights.

As we enter the knowledge economy, especially in North Carolina where traditional economic activities have withered, creation of intellectual property within universities is essential to the health of our economy. Unfortunately, the very real result of this bill could be to cripple public universities as one of the major contributors to the economic development that Bayh-Dole and technology transfer have provided. Industry and venture capital investors are also essential partners in this much-needed economic development. This bill would affect the economic health of those partners, as well as the institutions of higher education.

The benefits of Bayh-Dole to the state, region, and nation are evident throughout the University of North Carolina system. In 1999, the year *Florida Prepaid* was decided, UNC at Chapel Hill had 47 licenses generating income, was issued 41 new patents, and applied for 74 more. North Carolina State University had 60 licenses generating nearly 8 million dollars in income, had 30 patents issued, and applied for 62 more. NCSU also formed 8 new start-up companies in 1999, as a result of their technology transfer program. UNC's research efforts that contribute to building the economy are not limited to UNC at Chapel Hill and North Carolina State. The Southern Technology Council recently ranked UNC Charlotte "best in class" along with Johns Hopkins, North Carolina State University, and the University of Georgia, placing UNCC second in the number of start-up companies per \$10M in research, and second in the percentage of licenses to start-ups. These successes are repeated every day in the public institutions of higher education in all 50 states.

A necessary element of the success of technology transfer is the ability of universities to pass full rights to private parties. We don't take inventions to market; we license the inventions to industry and investors, who then make the inventions available to the public. Industry and investors won't participate in such programs if they can't fully protect their rights and investments in the marketplace. Private

enterprise will abandon development and investment programs with public universities, and the most productive and creative faculty will leave public institutions. Such an outcome is not only harmful to public universities, but to higher education, industry, and the nation as a whole. The vigorous system of research and development that has propelled US leadership in science and technology and driven our economic development is an intricately interlinked system of public and private university, industry, and government collaboration that depends on the vitality of all components of that system; crippling any one of those components will significantly impair the system as a whole. If that happens, the nation is the ultimate loser.

IV. SOVEREIGN IMMUNITY IS A CORNERSTONE OF OUR GOVERNMENT AND WAIVER OF IT IS A PREROGATIVE OF THE STATES, NOT INSTITUTIONS OF HIGHER EDUCATION

It is doubtful that many states will choose to waive sovereign immunity if this legislation is passed because the sovereignty of the states, and the inherent sovereign immunity, is a central component of the structure of our government. Its origin lies with the Declaration of Independence, and both the Articles of Confederation and the Constitution have reinforced it. As Justice Kennedy observed:

The Framers split the atom of sovereignty. It was the genius of their idea that our citizens would have two political capacities, one state and one federal, each protected from incursion by the other. The resulting Constitution created a legal system unprecedented in form and design, establishing two orders of government, each with its own direct relationship, its own privity, its own set of mutual rights and obligations to the people who sustain it and are governed by it.

This dual sovereign framework is mutually restrictive, and has caused the courts to strike down the states' improper attempts to interfere with the federal government, in the same way they have invalidated attempts by the federal government to improperly regulate the states.

It should be remembered that even after *Florida Prepaid*, an injured party still has remedies for infringement. In spite of sovereign immunity, an injured party still retains the right to injunctive relief for infringement. This would protect the owner of the property, and if the state needs to continue to use the property after being made aware of the dispute, a license would then be obtained or use would cease. In addition, a party may allege that an infringement is a taking, and seek to recover for the loss in the same way that a party seeks to recover compensation for the taking of real estate or other property by the state. An injured party may also allege a variety of contract, tort, and criminal law theories for redress and compensation.

Under appropriate circumstances, public institutions of higher education would be willing to waive their sovereign immunity as a condition for access to federal intellectual property law, but the decision is not ours to make. State governments must make the decision to waive their sovereign immunity; under the current bill, that decision must be made for the entire state as a single entity. Most states, like North Carolina, only allow the state legislature to waive sovereign immunity. In other states, a state constitutional amendment would be required, and in several states where legislatures meet every two years, it could take two years to adopt enabling state legislation, assuming the state would agree to waive sovereign immunity.

It is remarkably inequitable that the proposed legislation would restrict state sovereign immunity when the federal government asserts its own sovereign immunity and retains expansive protections against suit for infringement, limiting remedies to compensatory damages for direct infringement, and jurisdiction in only one court convenient to the federal government. The federal statute protecting itself has no provision for declaratory judgments, treble damages, contributory or inducement of infringement claims, or injunctions. By contrast, H.R. 2344 expands state liability to equal that of private damage claims, and lowers and reverses the burdens of proof. The states—and especially public institutions of higher education—are being severely punished for no apparent reason.

V. CONCLUSION

H.R.2344 would have a devastating impact on the ability of public universities to fulfill a core aspect of their public mission, the creation of new knowledge and the translation of that knowledge into products and processes that benefit the nation and its citizens. The harm would come because universities must be able to protect the intellectual property they create and transfer that protection to the private sector partners with whom they collaborate in research and development programs. But this bill requires states to waive their sovereign immunity as a requirement for use of federal intellectual property laws. The decision to waive is not the public university's decision; it is the state's decision.

If states choose not to waive, and we believe there is overwhelming evidence that they will not, then public universities as state entities will lose access to federal intellectual property laws. Although public universities would be willing under appropriate circumstances to waive their sovereign immunity, unless some means can be found to assure state willingness to waive, or a capacity for universities to waive independent of state decisions, we must oppose this legislation.

Mr. SMITH. Mr. Bohannon.

STATEMENT OF MARK BOHANNON, GENERAL COUNSEL AND SENIOR VICE PRESIDENT FOR PUBLIC POLICY ON BEHALF OF SOFTWARE AND INFORMATION INDUSTRY ASSOCIATION

Mr. BOHANNON. Thank you, Mr. Chairman, Ranking Member Berman, Members of the Subcommittee. I appreciate the opportunity to testify before you today on the detrimental effects that States claims of sovereign immunity are having on the effective enforcement of our Nation's intellectual property laws.

On behalf of SIIA, I am also very pleased to testify in support of the bill that you and Mr. Berman have introduced, H.R. 2344.

Our more than 600 member companies are industry leaders in the development and marketing of software and electronic content for business, education, consumers, and the Internet. They include some of the largest and oldest technology enterprises in the world, and, I am proud to say, many of the newer and smaller companies who depend on effective intellectual property protection.

The Supreme Court's decision in *Florida Prepaid* has put us and our members in a very difficult situation. Because there is no risk of monetary damage, there is no effective deterrent to prevent States from infringing either intentionally or unintentionally our copy righted software and other works. While the issues, at times, in this discussion are sometimes complex, I want to leave you with no doubt that the impact on our members is not a constitutional abstraction. It involves very real cases with meaningful financial consequences as we have discovered, as we have gone back through our own antipiracy program's experiences during the 6 years leading up to issuance of the Supreme Court's *Florida Prepaid* decision when States could be held liable and, therefore, were most likely to be deterred.

In that review, we identified at least 77 matters involving infringements by State entities. Of these 77 matters, more than half involved institutions of higher learning; the other 50 percent consisted of State hospitals, offices, commissions, and other entities that serve the public.

As I detailed in my statement, these figures are a conservative estimate. I am sure we will discuss further, during the question and answer period, the GAO study that has been frequently cited suggesting there really isn't a problem. Suffice it to say that our review of our own antipiracy effort supports the conclusions of the Copyright Office and others that the GAO study, by relying exclusively on cases brought to court as a measurement of infringement, fails to document the reality of this situation. As this Subcommittee is very familiar, those cases that get to court are actually a very small number of the antipiracy claims that occur as a result of infringements.

We also want to share with the Committee some very graphic experiences to show how sovereign immunity is increasingly becom-

ing a shield behind which the States are hiding. The most dramatic example of this occurred last February. Through a confidential source, our antipiracy program was alerted to the possibility that hundreds of computer programs were being illegally used by a State hospital in Baltimore, Maryland. With the hospital's approval and full cooperation, their computers were audited to determine the extent of the piracy. The audit revealed several hundred thousand dollars worth of unlicensed software, which the hospital acknowledged. Consistent with our overall approach, when we are confronted with a situation like this, we and the State agency attempted to work out a settlement involving a monetary sum to be paid ranging, from the hospital's perspective, from a quarter million dollars to three quarters of a million dollars. After months of good-faith negotiations, we received a letter from the Maryland State agency asserting their 11th amendment immunity and referencing the various court decisions, they refused to pay any monetary damages. Thus, while the State agency hospital all but admitted wrongdoing and appeared to be willing to settle the case for hundreds of thousands of dollars, once they discovered this giant loophole in the law, they took full advantage of it.

Mr. Chairman, I would ask that their letter, which I believe that the Committee staff has, be introduced into the record, as well as my entire statement.

Mr. SMITH. Without objection, that letter will be made a part of the record.

[The information referred to follows in the Appendix]

Mr. BOHANNON. In another sovereign immunity case, we were pursuing software piracy by a community college in New Hampshire that approximated about \$50,000 in damages. The college eventually turned to the AG of New Hampshire, who terminated negotiations and declared sovereign immunity. The Attorney General then went on to threaten that, if we sought an injunction, an action that I think everyone at this table believes we are legally entitled to take, they would simply discontinue the courses offering the training to students using the targeted software, and went on to suggest rule 11 claims for frivolous action if we ever decide to go to court on this.

Mr. Chairman, I would also ask that that letter, as well as two more recent letters from the Attorney General of Washington State, pointing to the formulaic approach the States are now taking to this also be introduced into the record.

[The information referred to follows in the Appendix]

Mr. BOHANNON. These cases, and others not documented here, illustrate the fundamental imbalance of the court sovereign immunity decisions. While States are immune to damages for infringing the IP rights of others, they remain free to sue private-sector organizations. The inequity is made worse, as you have said, by the fact that, in many instances, State entities receive immunity, even when the State involves commercial activity in the marketplace. Increasingly, States are undertaking initiatives that makes them commercial players competing with private-sector services and products. The Supreme Court's grant of immunity to the States means that more companies will face competition from the States without effective tools to protect their IP investments.

We fully support a legislative solution that eliminates the inherent unfairness of the present situation, that permits States to claim monetary damages when the property rights are trampled on, but exempts States from being held responsible when they violate the IP rights of others. We urge the prompt consideration and passage of legislation that meets the difficult constitutional standards set out by the Supreme Court, and also effectively protects rightholders against State usurpation of our copyrights. We believe the bill that has been introduced by you, Chairman Smith and you, Mr. Berman, H.R. 2344 can accomplish these goals, and we look forward to looking with you to see that that occurs.

Mr. SMITH. Thank you, Mr. Bohannon.

[The prepared statement of Mr. Bohannon follows:]

PREPARED STATEMENT OF MARK BOHANNON

Summary

- States' claims of sovereign immunity are having a detrimental effect on the enforcement of our nation's intellectual property laws.
- The Supreme Court's decision to grant states sovereign immunity means that, because there is no risk of monetary damages, there is no effective deterrent to prevent states from infringing either intentionally or unintentionally copyrighted works.
- The impact on our members involves real cases with meaningful financial consequences. Our testimony offers some very graphic examples that show that the loophole created by the Supreme Court is becoming a shield behind which states are increasingly hiding.
- The result is a fundamental inequity that exists between states and private parties. While states are immune from damages for infringement, they are free to sue private sector organizations for violations of copyright.
- The inequity is magnified by the fact that states are immune even when they act as commercial players in the market. Increasingly, state agencies and state-chartered bodies are competing with private sector service and product providers and companies will face competition from the states without effective tools to protect their intellectual property investments.
- We are pleased to testify today in strong support of H.R. 2344.

Statement Text

Mr. Chairman, Ranking Member Berman and members of the Subcommittee, I appreciate the opportunity to testify before you today on the detrimental effects that states' claims of sovereign immunity are having on the effective enforcement of our nation's intellectual property laws. We also welcome the opportunity to comment on your bill, H.R. 2344, the "Intellectual Property Protection Restoration Act of 2003."

I am Mark Bohannon, General Counsel and Senior Vice President, Public Policy for the Software & Information Industry Association. With over 600 member companies, SIIA is the principal trade association of the software code and information content industry. Our members are industry leaders in the development and marketing of software and electronic content for business, education, consumers and the Internet. SIIA's members are software companies, ebusinesses, and information service companies, as well as many electronic commerce companies. Our membership consists of some of the largest and oldest technology enterprises in the world as well as many smaller and newer companies.

They are united in their concern that the Supreme Court in its *Florida Prepaid* decisions, and the lower court decisions that have followed, have created a major loophole in our laws that is threatening the effective enforcement of our intellectual property laws. These judicial actions directly and adversely affect our members' ability to protect their patents, trademarks and copyrights against state entities and to protect themselves against state entities competing in the same marketplace.

The Supreme Court's decision has put SIIA and its members in an untenable situation: because there is no risk of monetary damage, there is no effective deterrent to prevent states from infringing either intentionally or unintentionally copyrighted software, movies, sound recordings, literary works and other copyrighted products. If and when state agencies and entities are discovered to be infringing, the best we

can hope for is to get them to stop - but only through the costly and time-consuming effort of going to court to get an injunction. Injunctions, while appropriate in some situations, simply do not satisfy the need for effective deterrence and resolution of damages.

The impact on our members is not a constitutional abstraction. It involves real cases with meaningful financial consequences.¹ During the six years leading up to issuance of the *Florida Prepaid* decision in 1999,² we identified at least 77 matters involving infringements by State entities. Of these 77 matters, approximately 50% involved State institutions of higher learning. The other 50% consisted of State hospitals, bureaus, public service commissions, and other instrumentalities.³

SIIA was extremely conservative in determining which matters involved "state entities" as a basis for our study. If there was any doubt whether an entity was a state entity, it was excluded from the scope. Furthermore, we only included in our study obvious and flagrant instances of piracy. We are able to make this determination largely because after SIIA learns of a possible infringement, an audit of the infringing entity's computers is completed. The audit helps us conclusively determine what software exists on an entity's computers and how much of that software is licensed and how much is illegal. Moreover, the SIIA study covers only those matters reported to SIIA. We have no doubt that a far greater number of State infringements than we are made aware of go undetected and unreported.

In the past year, some very graphic experiences show that the loophole created by the Supreme Court is becoming a shield behind which states are increasingly hiding. The most dramatic example of this occurred in February of last year.

Through a confidential source, SIIA was alerted to the piracy of hundreds of computer software programs on computers owned by a state hospital center in Baltimore, Maryland. With the hospital's approval and full cooperation, their computers were audited to determine the extent of the piracy. The audit revealed several hundred thousand dollars worth of unlicensed software, which the hospital acknowledged.

It is SIIA's policy to make every reasonable effort to reach a settlement in these types of cases and to pursue litigation only as last resort when an organization refuses to cooperate. Consistent with our approach, SIIA and the state agency hospital then attempted to work out a settlement. The settlement involved a monetary sum to be paid ranging from a quarter of a million dollars to three quarters of a million dollars, with SIIA and the hospital negotiating in good faith toward a reasonable settlement. Although the actual amount of monetary damages at issue in this case might be disputed, it is evident that the amount was large and directly related to the amount of software piracy taking place in their facilities. Also, as is the case with all SIIA settlement agreements, the hospital would also have to legitimately license the software.

On Monday, February 25, 2002, after months of good faith negotiations, SIIA's anti-piracy department received a letter from the Maryland state agency hospital asserting their 11th Amendment immunity and referencing the *Florida Prepaid* and *Rodriguez* cases. They refused to pay any monetary damages. Thus, while the state agency hospital all but admitted wrong doing and appeared to be willing to settle the case for hundreds of thousands of dollars in damages, once they discovered this giant loophole in the law they took full advantage of it. In addition, due to the shield of sovereign immunity we also have no way to ensure that the hospital has adequately licensed legitimate software or that the agency has put the proper policies and procedures in place to ensure that it does not continue, intentionally or unintentionally, to engage in software piracy.

In another sovereign immunity case, we were pursuing software piracy by a community college in New Hampshire that amounted to approximately \$50,000 in damages. The college eventually turned to the Attorney General of New Hampshire who

¹ By way of background: SIIA and its predecessor organization, the Software Publishers Association (SPA), have the longest-running digital anti-piracy program in existence. As a result, SIIA has been a pioneer in developing the legal framework to protect intellectual property, and taking direct action to combat software piracy. Started in the mid-1980s, SIIA's Corporate Anti-Piracy program identifies, investigates, and resolved software piracy cases on behalf of our members.

² Because of confidential settlement agreements, we cannot reveal the identity of the parties in these matters, and can make this information available only in the aggregate.

³ In the overwhelming majority of cases, no litigation actually resulted. This reinforces the conclusions of the U.S. Copyright Office and U.S. Patent and Trademark Office and others that the results published in the GAO report (titled "Intellectual Property: State Immunity in Infringement Actions") do not accurately reflect the amount of intellectual property infringement engaged in by state entities because many - if not most - instances of intellectual property infringement never find their way into the courts.

interceded and terminated negotiations by declaring sovereign immunity and refusing to continue any further discussions. In its letter to us, the Attorney General threatened that if we sought an injunction against the state entity - an action that we are legally entitled to take⁴ - that they would “discontinue all courses offering training to students in the use of the [] software.” Even more disturbing, the Attorney General also warned us that if we sought an injunction against the community college, they would seek sanctions against us under Rule 11 of the Federal Rules of Civil Procedure for allegedly making a frivolous claim.

While, in our view, these two cases are especially outrageous, they represent only the tip of the iceberg. There are more cases like it - and they increasingly reflect a trend where state entities are simply turning matters over to their state attorneys general who respond formulaically and hide behind the shield of immunity. SIIA is currently involved in several other cases in which the state has already informed us orally that it intends to assert its sovereign immunity. Quite clearly, this is a problem that is getting worse, not better.

These cases, and others not documented here, illustrate the fundamental imbalance of the Court’s sovereign immunity decisions. There is no incentive for the state entity to comply with federal copyright law or to adopt and implement policies and procedures to be compliant with the law. It is precisely this kind of inequity that Congress attempted to remedy when it passed the Copyright Remedy Clarification Act (CRCA) in 1990, and that we are asking the Committee to remedy.

The result is a fundamental inequity that exists between states and private parties. While states are immune to damages for infringing the intellectual property rights of others, they remain free to sue private sector (both for-profit and non-profit) organizations under federal intellectual property laws for alleged infringements of their patents, copyrights and trademarks and collect damages.

This inequity is magnified by the fact that, in many cases, state entities receive immunity even when the action involves commercial activity in the marketplace. The examples from the lead decisions on sovereign immunity involving claims of intellectual property are illustrative: In *Florida Prepaid*, the case involved use of a financing methodology patent by a state-chartered agency. The state agency competed directly with private sector vendors in offering college savings programs. In *Arte Publico v Chavez*, the high-profile Fifth Circuit opinion applying *Florida Prepaid* to copyright, the claim of infringement was against the Arte Publico Press, a for-profit arm of the state-chartered University of Houston that sells to the public. Increasingly, states are undertaking initiatives that make agencies and state-chartered bodies active commercial players competing with private sector service and product providers. The Supreme Court’s grant of immunity to the states’ means that more companies will face competition from the states without effective tools to protect their intellectual property investments.

In this context, it is important to recognize that states are today major owners of intellectual property and have benefited from federal law and policy to achieve this result. For example, as a result of the laws passed by Congress, states are free to file patents and trademarks and, unlike the federal government, are permitted to assert copyright.⁵ States are increasingly seeing their intellectual property as strategic assets and utilizing sophisticated licensing management strategies to commercialize their portfolio. Moreover, federal technology policy has for more than two decades ensured that states, including Universities, are entitled to take title to inventions arising out of the billions of federal research and development dollars that are invested through grants, contracts and financial assistance in health, science, agriculture and defense.⁶

Sovereign immunity has not only caused problems for those SIIA members who compete in the marketplace with products and services provided by state entities, but also for those SIIA members who sell, license or co-create their products and services to or with state entities. For example, in order to obviate the sovereign immunity issue from raising its ugly head in a dispute involving a contract entered into by a company and a state entity, some SIIA members attempt to include binding arbitration clauses in their contracts. However, state entities will not agree to such clauses, instead insisting that the court venue must be in their own state. While the state entities involved in these contractual negotiations rarely give as their justification the need to play the sovereign immunity trump card in any possible intellectual property or other dispute, from our vantage point this is clearly a leading factor in these state entities aversion to such clauses. Our members have run into other difficulties during contract negotiations with state entities relating

⁴ See *Ex Parte Young*.

⁵ See 17 U.S.C. 105.

⁶ See Bayh-Dole Act, 35 U.S.C. 200-212 and related policy memoranda.

to intellectual property which they believe to be attributable to the great disparity in negotiating power resulting from a state's ability to act first and claim sovereign immunity later.

SIIA fully supports a legislative solution that eliminates the inherent unfairness of the present situation that permits states to claim monetary damages when their property rights are trampled on, but exempts states from being held responsible when they violate the intellectual property rights of others. We urge the prompt consideration and passage of legislation that meets the constitutional standards set by the Supreme Court and also effectively protects rights holders against State usurpation of their copyrights. We believe that the bill introduced by Chairman Smith, Ranking Member Berman and Mr. Coble - H.R. 2344—accomplishes these goals.⁷ Therefore, I am pleased to testify today in strong support of H.R. 2344.

We recognize and acknowledge the complex issues involved in the 11th Amendment and its impact in a wide variety of contexts. We do believe that there is a framework that can pass constitutional scrutiny that will fix the current imbalance and produce a more solid, predictable relationship with the states. Ultimately, our ability to achieve such a framework depends on the willingness of the states to negotiate in *good faith* toward a compromise that is both constitutional and effective. To date, the states have been disinclined to engage in such an exercise because they have no incentive to do so. After all, any legislation in this area would benefit private intellectual property owners and would erode the sovereign immunity that states now enjoy. While we appreciate that the states might not find this appealing, they cannot continue to have it both ways where they benefit from the protection of their intellectual property while being immune to damages when they usurp others'.

We hope that this dynamic will change and that states will see the need to address the injustices that exist in the present system. Certainly, we believe that today's hearing and the recent introduction of H.R. 2344 (and a similar bill introduced by Senator Leahy, S. 1191) are very positive steps in that direction. We look forward to working with the Congress and the states to achieve a legislative solution that eliminates the unfairness we discuss today.

Thank you again for all your work on the intellectual property issues that have arisen before your Subcommittee and thank you in advance for your commitment and work to address our concerns in this area. I will be happy to answer any questions that the Subcommittee may have.

Mr. SMITH. Mr. Bender.

STATEMENT OF PAUL BENDER, PROFESSOR OF LAW, ARIZONA STATE UNIVERSITY LAW SCHOOL, AND COUNSEL TO MEYER & KLIPPER, PLLC, ON BEHALF OF THE PROPERTY OWNERS REMEDY ALLIANCE

Mr. BENDER. Thank you, Mr. Chairman.

I am here representing the Property Owners Remedy Alliance, which is a group of copy right owners that strongly supports your bill H.R. 2344. We would like to thank you for the opportunity of coming before you and discussing these issues, and especially thank you for the leadership that you have shown and Congressman Berman has shown and Senator Leahy has shown on this issue of trying to remedy unfairness, which you have identified in your statement, an unfair situation in which States are able to get full protection for their own intellectual property but are immune from damages when they violate other people's intellectual property.

Congress has been trying for more than 10 years to remedy that situation. In 1990, you passed the Copyright Remedies Clarification Act to comply with the Supreme Court's decision in *Atascadero* which required that an abrogation of State immunity be very, very

⁷As members of the Property Owners Rights Alliance (PORA), we direct you to the more detailed comments and testimony on the bill provided by Professor Bender, testifying on behalf of PORA today.

clear. And you did that. And then the Court held 9 years later that it was unconstitutional to do that, and so we are back to the unfair situation of States having full protection for their property and yet being immune from damage actions when they infringe on the property of others.

In my opinion, H.R. 2344 goes a long way toward remedying that unfairness, and it does so completely in accordance with the rules that the Supreme Court has laid down in this area. It has three parts, as has been said by other witnesses.

The waiver part requires the State, if it wants to obtain damages when its intellectual property is infringed, to waive its immunity from damage actions against it. I think it is really important to point out that the waiver that would be required is not a waiver of all of the State's sovereign immunity from all kinds of actions. They don't have to waive their immunity from negligence actions arising out of automobile accidents, they don't have to waive their immunity from any kind of damage except intellectual property. And that limited waiver, it seems to me, to be entirely reasonable. There is a Federal system of intellectual property. Everybody else playing by a certain set of rules. That is, you can get rights but you are also violations of rights. And people in this area both use rights and claim them and also sometimes are accused of violating them. So it is important that it goes both ways.

And, it is reasonable to say to the States: If you want to participate in this system, you have to participate on the same basis as everyone else.

So, it is a limited waiver; it is not a widespread waiver. And it would seem to me that—Ms. Winner pointed out how valuable it, is how valuable these property rights are to States that it should not be impossible to convince States that those values are there. The State Legislature knows it as well as we do. And, that limited waiver, so it enters the system on the same basis as everybody else, is one that is in the State's interest to make.

So I don't think there are any constitutional problems with that. The *ex parte* Young Provision simply codifies existing law. And I think it is important to do, because the status of *ex parte* Young is a little precarious now, not as a constitutional matter. It is clearly constitutional to sue individuals who violate Federal law. But the court has sometimes thought that maybe Congress did not want the doctrine to apply in a particular area. In the Seminole case it did that, for example. And I think it is important that Congress say that it wants it to apply in this area despite the other remedies that are available.

The abrogation provision I think is also clearly constitutional because it only imposes liability on States when they violate the Constitution. The Supreme Court has made it clear that, when States violate 14th amendment rights, they can be held financially liable as distinguished from a situation where they violate rights that arise under Congress's Article I powers. The draft bill makes States liable when they violate due process rights or rights under takings clause, which has been incorporated in the 14th amendment. So it only applies when States violate the Constitution, violate the 14th amendment. In the particular case, the plaintiff would have to show that there was a violation of 14th amendment.

In that situation, I don't think it is necessary for Congress to develop the voluminous factual record that the Court has required when Congress tries to abrogate immunity when States don't violate the Constitution. For example, in the Morrison case involving the Violence Against Women Act, the Supreme Court said that you needed a record of State violations of the Constitution to justify a statute that addressed all gender motivated violence. Most gender motivated violence is not State violence, and, therefore, is not unconstitutional. That kind of prophylactic legislation by Congress, you need to develop a record. But here, the legislation itself only applies when there is a violation of the Constitution. And I think Congress has the power to do that despite how many violations there have been. As you have just heard, there are violations and there are an increasing number of violations.

So, with one possible suggestion: Namely, that the remedies bar what you have in here now, which just bars them from recovering damages, you might think of broadening that so it really puts them on the same basis as everybody else and bars them from getting injunctions the same as other users.

I think this is a really good bill.

Mr. SMITH. Thank you, Professor Bender.

[The prepared statement of Mr. Bender follows:]

PREPARED STATEMENT OF PROFESSOR PAUL BENDER

EXECUTIVE SUMMARY

Mr. Chairman, the Property Owners Remedy Alliance (PORA) welcomes the opportunity to present its views on your bill, H.R. 2344, the "Intellectual Property Protection Restoration Act of 2003." PORA's members greatly appreciate your and Mr. Berman's interest in this important issue, as well as the time and effort the Committee staff has devoted to crafting this important legislation.

PORA is an ad hoc group composed of a number of copyright-based companies and trade associations.¹ Copyrights are at the core of the business of PORA's members. They market copies—or license the public performances—of millions of copyrighted works. They often sell or license works to States and their instrumentalities, which are prodigious users of copyrighted materials.

In 1990, with the support of many of PORA's current members, Congress passed the Copyright Remedy Clarification Act (CRCA) as a response to Supreme Court and lower federal court decisions. The CRCA—and its subsequent patent and trademark counterparts—was enacted to redress the inequity of a situation where States, as intellectual property owners, could avail themselves of the full array of remedies as plaintiffs, but enjoyed immunity to damage awards as defendants. In 1999, a series of Supreme Court sovereign immunity decisions resulted in the Fifth Circuit's striking down the CRCA. These Supreme Court decisions and their progeny have immunized States from damage awards when they infringe the federal intellectual property rights of others, while leaving them free to obtain all statutory remedies—including injunctions and damages—when their own intellectual property rights are violated. This is the same situation that existed in 1990.

State immunity from money damage awards for copyright violations is of great concern to copyright owners—especially at a time when the digital revolution is dramatically increasing the scope and gravity of the piracy threat copyright owners face. PORA's members are grateful to the Committee for the responsiveness that it has shown in enacting prophylactic legislation in the past—such as the Digital Millennium Copyright Act, the NET Act and the Digital Theft Deterrence and Copyright Damages Improvement Act of 1999—to deal with new piracy threats caused by digital technology. PORA views H.R. 2344 as part and parcel of these legislative efforts.

¹PORA's members include the American Society of Composers, Authors, and Publishers; Broadcast Music, Inc.; the Business Software Alliance; the Motion Picture Association of America; the Recording Industry Association of America; Reed Elsevier Inc.; the Software & Information Industry Association; and AOL Time Warner Inc.

We believe that an effective and constitutional sovereign immunity bill should have three components: (1) a provision that provides an incentive for States voluntarily to waive their immunity in exchange for access to full remedies under the intellectual property system; (2) a provision abrogating state sovereign immunity for unconstitutional violations of intellectual property rights; and (3) codification of the *Ex parte Young* doctrine, which permits injunctions against state officials. H.R. 2344 contains all three of these important elements.

For this reason, we strongly support H.R. 2344. Additionally, we respectfully urge the Committee to strengthen the “remedies bar” in order to preclude the award of injunctions or damages to non-waiving States. An amendment of this nature will strengthen the incentive for States to make themselves full and equal participants in the United States intellectual property system.

Mr. Chairman, the Property Owners Remedy Alliance (PORA) welcomes the opportunity to present its views on your bill, H.R. 2344,² the “Intellectual Property Protection Restoration Act of 2003.” PORA’s members greatly appreciate your interest in this important issue. We also want to thank Representative Berman for his long-standing interest in this issue, dating back to the original Copyright Remedy Clarification Act in the 101st Congress.

PORA is an ad hoc group composed of a number of copyright-based companies and trade associations. Its members include the American Society of Composers, Authors, and Publishers; Broadcast Music, Inc.; the Business Software Alliance; the Motion Picture Association of America; the Recording Industry Association of America; Reed Elsevier Inc.; the Software & Information Industry Association; and AOL Time Warner Inc. PORA was formed in early 2000 in response to the Supreme Court’s 1999 sovereign immunity decisions, *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*³ and *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*.⁴ These decisions, and lower court decisions that rely on them,⁵ have created a fundamentally unfair situation in which States are immune from financial responsibility for any harm that their infringements cause to copyright owners, while at the same time are free to obtain *all* statutory remedies—including injunctions and damages—against those who trespass on their rights. The inequity of States being able to play by two sets of rules caused Congress to change the law in 1990, and these new decisions make it even more important that Congress do so today.

Copyrights are at the core of the business of PORA’s members. They market copies—or license the public performances—of millions of copyrighted works. They often sell or license works to States and their instrumentalities, which are prodigious users of copyrighted materials. State immunity from money damage awards for copyright violations is therefore of great concern to PORA members—especially at a time when the digital revolution is dramatically increasing the scope and gravity of the piracy threat copyright owners face.

In the past few years, Congress has repeatedly recognized the threat posed to copyright owners by new digital technology and has acted accordingly.⁶ Enactment of remedial legislation, in light of the Supreme Court’s 1999 sovereign immunity decisions, is entirely consistent with these past congressional efforts.

²We are grateful to Senator Leahy for introducing S. 1191, which is substantively identical to H.R. 2344. Our comments on H.R. 2344 therefore apply equally to S. 1191.

³527 U.S. 627 (1999).

⁴527 U.S. 666 (1999).

⁵*See, e.g., Chavez v. Arte Publico Press*, 204 F.3d 601 (5th Cir. 2000); *Rodriguez v. Texas Comm’n on the Arts*, 199 F.3d 279 (5th Cir. 2000).

⁶In light of the threat posed to copyright owners by digital technology, Congress enacted the Digital Millennium Copyright Act, Pub. L. No. 105–304, 112 Stat. 2860 (1998), which, in part, makes it illegal to circumvent copyright protection technology, or to alter copyright management information. In 1997, Congress passed the No Electronic Theft Act, Pub. L. No. 105–147, 111 Stat. 2678 (1997), in order to fill a gap in U.S. law regarding the criminal liability of those who engage in harmful copyright infringement for non-commercial purposes. The legislative history of that Act reveals congressional concern that additional penalties were needed to combat electronic copyright piracy. *See generally* H.R. Rep. No. 105–339, at 4 (1997). Most recently, Congress enacted the Digital Theft Deterrence and Copyright Damages Improvement Act of 1999, Pub. L. No. 106–160, 113 Stat. 1774, which significantly increases the statutory damages for copyright infringement as a means of deterring copyright piracy in a digital environment. *See* H.R. Rep. No. 106–216, at 3 (1999) (noting that “copyright piracy of intellectual property flourishes, assisted in large part by today’s world of advanced technologies,” and that “the potential for this problem to worsen is great. By the turn of the century the Internet is projected to have more than 200 million users. . . .”).

Our members' goal is to secure the passage of constitutional and effective federal legislation that: (1) eliminates the inherent unfairness of the present situation, in which States and their instrumentalities—which are increasingly participating as competitors in the commercial marketplace—are able to enjoy the full benefits of the copyright law without shouldering one of its most important responsibilities; and (2) complies with the newly articulated constitutional boundaries established by the Supreme Court.⁷

PORA thus urges the enactment of legislation that would:

- Condition the availability to States of certain judicial remedies under the federal intellectual property system on State waivers of sovereign immunity from suit for State infringements of private intellectual property rights;
- Abrogate State sovereign immunity when State infringements of intellectual property rights also violate constitutional rights; and
- Codify the doctrine of *Ex parte Young*,⁸ thereby affirming the continued availability of injunctive and monetary relief against State officials who violate federal intellectual property laws.

Mr. Chairman, we are pleased that H.R. 2344 contains provisions addressing each of these important goals and PORA therefore strongly supports your bill. In our testimony, we will explain why we support the inclusion of these provisions in H.R. 2344. We will also suggest one particular, substantively important enhancement to the text of H.R. 2344 regarding the scope of remedies denied non-waiving States that we believe will improve the bill. We urge the Committee to give careful consideration to it.

We will first discuss the legal and constitutional developments that have made H.R. 2344 a necessity.

I. THE 101ST CONGRESS AND THE COPYRIGHT REMEDY CLARIFICATION ACT

In November of 1990, President George Bush signed into law the Copyright Remedy Clarification Act (CRCA).⁹ Drafted in response to a number of federal court decisions,¹⁰ that legislation expressly abrogated State sovereign immunity from money damage awards in copyright infringement suits. Two years after passage of the CRCA, Congress enacted its patent and trademark counterparts: the Patent and Plant Variety Protection Clarification Act (PRA)¹¹ and the Trademark Remedy Clarification Act (TRCA).¹²

When it passed the CRCA in 1990, the 101st Congress believed that it had the power to abrogate State immunity under Article I, Section 8, Clause 8 of the Constitution—the Patent/Copyright Clause. In reaching this conclusion, Congress relied on the Supreme Court's decision in *Pennsylvania v. Union Gas Co.*,¹³ in which the Court (by a 5–4 vote) ruled that Congress could use its Article I powers to abrogate State immunity if Congress made its intention to abrogate unmistakably clear. When the 102nd Congress enacted the PRA and the TRCA in 1992, it referenced two Article I powers (the Patent/Copyright and Commerce Clauses), as well as its authority under Section 5 of the Fourteenth Amendment, as the constitutional basis for the legislation.

Now, thirteen years later, the 108th Congress finds itself revisiting this issue because, in the interim, the Supreme Court has changed the constitutional landscape in a way that has frustrated Congress' purpose in enacting the CRCA, PRA and the TRCA. Thus, in a real sense, the task before this Committee is technical in nature: to draft a new law to fill the gap in State responsibility created by these judicial rulings—a law that meets the Court's newly articulated constitutional under-

⁷ While our comments are offered from the perspective of copyright owners, we recognize that other federal intellectual property owners have been adversely affected by these decisions and we urge the enactment of legislation that protects the interests of patent and trademark owners as well.

⁸ 209 U.S. 123 (1908).

⁹ Pub. L. No. 101–553, 104 Stat. 2749 (1990).

¹⁰ In 1985, the Supreme Court decided *Atascadero State Hospital v. Scanlon*, 473 U.S. 234 (1985), holding that a federal law seeking to abrogate State sovereign immunity must contain “unequivocal statutory language” evincing Congress' intent to abrogate immunity and must specifically include States within the class of defendants subject to statutory remedies. Subsequently, a number of federal courts determined that the Copyright Act lacked the necessary “unequivocal statutory language.” See, e.g., *BV Engineering v. UCLA*, 858 F.2d 1394 (9th Cir. 1988), cert. denied, 489 U.S. 1090 (1989).

¹¹ Pub. L. No. 102–560, 106 Stat. 4230 (1992).

¹² Pub. L. No. 102–542, 106 Stat. 3567 (1992).

¹³ 491 U.S. 1 (1989).

standing and is an effective means of deterring State infringements of federal intellectual property rights and compensating those who are the victims of such violations.

The reasons that prompted Congress to enact the CRCA in 1990 (and the PRA and TRCA in 1992) remain compelling today. It is instructive to review briefly the history surrounding the enactment of the CRCA.

Congress began its work in this area in 1987, by requesting and receiving from the United States Copyright Office a study examining State immunity from infringement actions.¹⁴ Specifically, Congress asked the Copyright Office to examine two issues: (1) the practical problems relative to the enforcement of copyright law against State entities; and (2) the presence, if any, of unfair business practices by copyright owners vis-à-vis State governments.¹⁵ The Copyright Office's detailed examination revealed that copyright owners had suffered and would continue to suffer harm if Congress did not abrogate State immunity from suit for State copyright infringements.¹⁶

The Copyright Office Report uncovered evidence of unremedied State copyright infringements. Those who filed comments with the Office "almost unanimously chronicled dire financial and other repercussions that would flow from State Eleventh Amendment immunity from damages in copyright infringement suits."¹⁷ The Copyright Office concluded that "copyright owners have demonstrated that they will suffer immediate harm if they are unable to sue infringing States in federal court for money damages."¹⁸

Congress' own consideration of the issue confirmed the Copyright Office's findings and conclusions. This Committee declared that "[s]tate immunity from damages critically impairs creative incentives and business investments in the country's copyright businesses that deal with State entities."¹⁹ Similarly, the House Judiciary Committee concluded that "actual harm has occurred and will continue to occur if this legislation is not enacted."²⁰ Congress also recognized that the harm emanating from State copyright immunity was not limited to copyright owners. The Senate Report recognized that "[i]t is not only business enterprises that are hurt by State infringements, but individuals, primarily students and public colleges and universities, who pay the price of State immunity through higher prices and lower quality of materials."²¹ Thus, when Congress passed the CRCA, it acted on a record that documented the seriousness of the problem and the need for prompt legislative intervention in response to recent court decisions holding States immune from damages in copyright cases because of the failure of existing legislation to abrogate State immunity.²²

Several additional factors motivated Congress in enacting the CRCA.

¹⁴United States Copyright Office, *Copyright Liability of States and the Eleventh Amendment* (1988) [hereinafter Copyright Office Report].

¹⁵Letter from Representatives Kastenmeier and Moorhead, Chairman and Ranking Minority Member, Subcomm. of Courts, Civil Liberties and the Admin. of Justice of the House Comm. on the Judiciary, to Ralph Oman, Register of Copyrights (August 3, 1987), reprinted in Copyright Office Report, *supra* note 13; see also *id.* at iii-iv, 5.

¹⁶See Copyright Office Report, *supra* note 13, at vii, 103; H.R. Rep. No. 101-282, at 8 (1989); S. Rep. No. 101-305, at 10 (1990).

¹⁷Copyright Office Report, *supra* note 13, at iii; see also, *id.* at 7-9 (describing unauthorized State copying and distribution of educational films, musical compositions and instructional materials).

¹⁸Copyright Office Report, *supra* note 13, at vii.

¹⁹S. Rep. No. 101-305, at 9 (1990). The Senate Judiciary Committee also noted that "[c]ontinued State immunity from damage suits will result in such adverse consequences as increases in the prices charged non-State users, diminution in the economic incentive to create new works, and decline in the quantity and quality of published works." *Id.* at 10.

²⁰H.R. Rep. No. 101-282, at 8 (1989).

²¹S. Rep. No. 101-305, at 9 (1990). In addition, Congress received testimony that State immunity from damage actions adversely impacts individual authors whose markets center on college campuses. See *id.*

²²These cases contravened earlier decisions holding States subject to damage awards in copyright infringement cases. Compare *BV Engineering v. UCLA*, 858 F.2d 1394 (9th Cir. 1988) (holding 1976 Copyright Act—pre-CRCA—does not abrogate Eleventh Amendment immunity) with *Mills Music, Inc. v. Arizona*, 591 F.2d 1278 (9th Cir. 1979) (rejecting claim of Eleventh Amendment immunity). When it enacted the CRCA, Congress was aware of a number of other copyright infringement suits brought in federal court against States. See, e.g., *Richard Anderson Photography v. Brown*, 852 F.2d 114 (4th Cir. 1988), cert. denied, 489 U.S. 1033 (1989); *Lane v. First Nat'l Bank of Boston*, 871 F.2d 166 (1st Cir. 1989); *Howell v. Miller*, 91 F. 129 (6th Cir. 1898); *Cardinal Indus., Inc. v. Anderson Parrish, Inc.*, 230 U.S.P.Q. (BNA) 678 (M.D. Fla. 1986); *Johnson v. University of Virginia*, 606 F. Supp. 321 (W.D. Va. 1985); *Woelffer v. Happy States of America, Inc.*, 626 F. Supp. 499 (N.D. Ill. 1985).

First, the 101st Congress was deeply troubled by the fact that sovereign immunity confers an unfair commercial advantage on States and their instrumentalities. It permits States to operate by two sets of rules: one when their copyrights are infringed and another when they infringe the copyrights of others. When States are victims of infringement, they have at their disposal all of the remedies available under the Copyright Act; when States infringe, however, they are shielded from a key copyright remedy—monetary damages. The 101st Congress²³ concluded that States thus unfairly received a “free ride” by being able to obtain all of the benefits conferred by the copyright law without bearing one of its most important responsibilities.²⁴

The 101st Congress’ concern over this unfair situation was heightened by its recognition that States are frequent and important users and owners of copyrighted works. With respect to State *uses* of copyright materials, a former Register of Copyrights told the 101st Congress:

States and their instrumentalities are major users of copyrighted material of all sorts—not only the familiar forms of printed books and periodicals but the whole range of creative expression in the 1980’s: dance and drama, music and sound recordings; photographs and filmstrips; motion pictures and video recordings; computer software and chips; pictorial and graphic material, maps and architectural plans, and so forth, ad infinitum. State exploitation of copyrighted works is by no means limited to uses that can be called educational or nonprofit. They include publishing enterprises, computer networks, off-air-taping, public performance and display, radio and television broadcasting and cable transmissions, to name only the most obvious [examples]²⁵

Moreover, the 101st Congress knew that, unlike the federal government, which cannot generally assert copyright in the works of its employees,²⁶ States are free to claim copyright in works created by their employees and to reap the commercial benefits that result from such rights.²⁷

²³The Senate Judiciary Committee stated the issue in these terms:

The current state of law has resulted in the anomalous situation that public universities can infringe copyrighted material of private universities [and for that matter, of private parties] without liability for damages, but private universities cannot similarly infringe with impunity on the works created by public institutions. Thus, UCLA can sue USC for damages from copyright infringement but USC cannot collect damages from UCLA [Moreover, f]or a copyright proprietor who sells his or her products to educational institutions, it is puzzling that State schools cannot be sued for damages for their systematic unauthorized copying, but private institutions can be. A substantial segment of these companies’ market is beyond the reach of the most important remedy provided by the Copyright Act.

S. Rep. No. 101–305, at 9 (1990).

²⁴See generally H.R. Rep. No. 101–282, at 10 (1989); S. Rep. No. 101–305, at 6 n.3 (1990). Less than three years ago, the ranking member of the House Judiciary Subcommittee on Courts and Intellectual Property echoed this concern:

[I]t is our goal as well as our responsibility to ensure that our intellectual property system remains fair and balanced, while still being constitutional in the eyes of the Supreme Court. To the extent that the law protects the intellectual property of one class of actors, but does not correspondingly require that class of actors to respect intellectual property rights of others, the law is distinctly unfair and imbalanced.

Oversight Hearing on “State Sovereign Immunity and the Protection of Intellectual Property” Before the House Comm. on the Judiciary, Subcomm. on Courts, the Internet, and Intellectual Property, 106th Cong. (2000) (statement of Rep. Berman) available at <http://www.house.gov/judiciary/courts.htm>.

²⁵See *Copyright Remedy Clarification Act: Hearing on H.R. 1131 Before the House Comm. on the Judiciary, Subcomm. on Courts, Intellectual Property, and the Admin. of Justice*, 101st Cong. (1989) (statement of Barbara Ringer).

²⁶17 U.S.C. § 105 (“Copyright protection under this title is not available for any work of the United States Government, but the United States Government is not precluded from receiving and holding copyrights transferred to it by assignment, bequest, or otherwise.”).

²⁷A number of courts have ruled, however, that neither the federal government nor States can claim copyright protection in judicial opinions, State statutes, legislative histories and similar official documents. See *Wheaton v. Peters*, 33 U.S. 591 (1834) (holding that reporters of Supreme Court decisions cannot claim copyrights in those decisions); *Building Officials & Code Adm. v. Code Technology Inc.*, 628 F.2d 730 (1st Cir. 1980) (giving reasons why copyright in a work such as a building code might not be fully maintained after that work is officially adopted by the State as law); see also M. Nimmer and D. Nimmer, *Nimmer on Copyright*, § 5.06. Nonetheless, some States continue to assert copyright or copyright-like protection in official documents.

Second, while acknowledging the importance of *Ex parte Young* injunctions as a remedial tool under the copyright law, Congress concluded that injunctive relief, standing alone, was inadequate to protect the interests of copyright owners against State infringers.²⁸

Third, the 101st Congress knew that because federal courts have exclusive jurisdiction over federal copyright cases, sovereign immunity means “the choice [in copyright cases] is . . . between the federal forum and no forum.”²⁹

The reasons that drove enactment of the CRCA in 1990 are, if anything, even stronger in 2003. State use of copyrighted works is even more frequent than thirteen years ago. This is certainly true on college campuses; public institutions currently house nearly 80% of the students attending institutions of higher learning in the United States.³⁰ Copyrighted software is used in every university setting, public or private. Moreover, State university systems’ Intranets (computer networks linking classrooms, libraries, media centers and dormitory rooms) now make it possible for a university to distribute copies or performances of copyrighted works to unlimited numbers of faculty, students, and even members of the general public.

The problems posed today by State immunity are not limited to the university environment. Copyrighted software, music, motion pictures, sound recordings and other works are used by many State departments and agencies. Computer software programs are found in virtually every governmental entity performing specialized tasks or general office administration functions. Copyright users include State departments of education, taxation, and transportation.

Finally, in assessing the unfairness of the current state of the law, it is also critical to take into account that today States are *major owners* of intellectual property and that they increasingly act, not as sovereigns, but as commercial competitors. For example, in *Florida Prepaid*, the State allegedly infringed College Savings’ patent in a program when it offered a competing service using the patented method. Moreover, like corporations in the public sector, States have begun to centralize the management of their intellectual property assets so that they may successfully exploit their creations.³¹

In addition, for years many States have aggressively registered their works with the Copyright Office and continue to do so. This point was underscored in 2000 by the Register of Copyrights in testimony before this Subcommittee:

We do have some sense of the extent to which States make use of the Copyright Office’s registration function. The Copyright Office reviewed the registrations issued to four-year state colleges and universities for monographs since 1978. Over 32,000 such registrations were found. That is an average of 645 registrations for each State. Put differently, on average the Copyright Office has issued a registration for a work by a State (not including State entities other than four-year colleges and universities, and not including serials) once every twelve calendar days for the last twenty-two years. Clearly, States are availing themselves of the copyright protection provided by federal law.³²

²⁸ See S. Rep. 101–305, at 12 (1990) (“Injunctive relief for copyright violations does not provide adequate compensation or effective deterrence for copyright infringement. . . . Injunctions only prohibit future infringements and cannot provide compensation for violations that have already occurred.”). See also H.R. Rep. No. 101–282, at 8 (1989) (“[injunctive relief] . . . deters only future conduct, and does not compensate for past harm.”).

²⁹ *BV Engineering v. UCLA*, 858 F.2d 1394, 1400 (9th Cir. 1988). The same is true today. See 28 U.S.C. § 1338(a).

³⁰ Although we have not yet obtained state-by-state statistics, the gross numbers below indicate the nationwide scope of state employee and student populations. For example, as of Fall 1995, nearly 80% of higher education students were enrolled in public institutions—11.1 million out of 14.2 million. *U.S. Dep’t of Educ., Digest of Educational Statistics 1997*, Table 172. Over the past half-century the percentage of students enrolled in public vs. private has increased dramatically. In fact, in 1947, a roughly equal number of students were enrolled in public and private institutions of higher learning. *Id.* In addition, as of July, 1999, according to the Bureau of Labor Statistics, the number of state employees is 4.7 million. U.S. Bureau of Labor Statistics, Aug., 1999. Moreover, as of the Fall of 1993, 71% of all non-graduate student instructors in institutions of higher learning were employed by public versus private institutions. *U.S. Dep’t of Educ., Digest of Educational Statistics 1997*, Table 225 (1997).

³¹ See *infra* note 31 (noting a nonexhaustive list of States that have created entities to market State intellectual property more effectively).

³² *Oversight Hearing on “State Sovereign Immunity and the Protection of Intellectual Property” Before the House Comm. on the Judiciary, Subcomm. on Courts, the Internet, and Intellectual Property*, 106th Cong. (2000) (Testimony of Marybeth Peters) available at <http://www.house.gov/>

As the Committee is aware, the primary benefit of timely registration is the enhanced ability to collect monetary awards from infringers.³³

Furthermore, universities increasingly are moving away from the practice of allowing professors, rather than the State or the university, to claim copyright in faculty-created works. This development is motivated in part by the upsurge in the commercial value of technologically-oriented faculty creations such as computer software and multimedia works.³⁴

In short, States currently reap all the benefits of the Copyright Act without having to expose themselves to financial liability for their infringing acts. This disparity creates an inequitable situation in the intellectual property marketplace, and should be corrected. H.R. 2344 would help do just that.

II. THE CRCA, THE PRA AND THE TRCA UNDER CONSTITUTIONAL ATTACK

In *Seminole Tribe of Florida v. Florida*³⁵ the Supreme Court overruled the *Union Gas* case, upon which Congress had relied in enacting the CRCA, the PRA, and the TRCA. In *Seminole Tribe*, the Court held that Congress could not use its Article I powers to abrogate State immunity from suit for violation of legislation passed pursuant to Congress' Article I powers.³⁶ This startling decision removed Article I as a basis for the CRCA, PRA and TRCA. After *Seminole Tribe*, the constitutionality of these statutes turned on whether they could be sustained under either Section 5 of the Fourteenth Amendment or under the so-called *Parden* doctrine,³⁷ under which States could waive their sovereign immunity by participating voluntarily in certain commercial activities.

judiciary/courts.htm. It is worth noting that these numbers do not take into account the innumerable unregistered copyrights that States are free to exploit. *Cf.* 17 U.S.C. § 408(a).

Moreover, at the same hearing, the head of the Patent and Trademark Office told the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property:

We have done some initial research into the extent of state holdings of intellectual property. For example, we know that public colleges and universities—that is, state institutions—acquired over 13,000 U.S. patents between 1969 and 1997—roughly 60% of the total 22,551 patents issued to all institutions of higher learning during the period. As a rough calculation, state academic institutions received approximately 2.5% of all U.S. utility patents issued to non-federal government, U.S. entities in 1997 and 1998. It is important to note that these figures count only issued patents where the assignor at the time of issuance was identifiably a state college, university, or research institution. In addition, these numbers do not count the patents held by state hospitals, state agricultural services, and the like.

Our initial look at trademark registrations suggests that state institutions, particularly universities, have scores of federally-protected trademarks—which they are more and more aggressively protecting. In short, the States enjoy an enormous collection of federally-granted intellectual property rights, each and every one of which will be enforced by federal courts.

Oversight Hearing on "State Sovereign Immunity and the Protection of Intellectual Property" Before the House Comm. on the Judiciary, Subcomm. on Courts, the Internet, and Intellectual Property, 106th Cong. (2000) (Testimony of Todd Dickinson) (July 27, 2000) available at <http://www.house.gov/judiciary/courts.htm>.

In addition, State governments have begun to set up corporations for the purpose of commercially exploiting intellectual property created at their institutions of higher learning, and State laws have begun directing and empowering State instrumentalities to exploit creative works and inventions. *See, e.g.*, 2001 Pa. Laws 77, §§ 1701 *et seq.* (2001) (establishing biotechnology research centers, and nonprofit corporations to operate those centers, with the apparent goal of attracting venture capital and implementing the commercial development of new research discoveries); Haw. Rev. Stat. § 307-3 (2001) (establishing the Research Corporation of the University of Hawaii); Va. Code Ann. § 2.2-2221 (2001) (setting forth the powers of the Innovative Technology Authority); Ariz. Rev. Stat. § 15-1635 (2001) (giving Arizona Board of Regents power to organize corporations and to "enter into research and development agreements [etc.] . . . concerning the research, development, production, or storing or marketing of new products developed or to be developed through university research"); *see also* <http://www.yamacraw.com> (describing a multimillion dollar fund created by Georgia designed to encourage investment through public/private partnerships that exploit intellectual property).

³³ *See* 17 U.S.C. § 412 (precluding statutory damages and attorneys' fees in the absence of a timely registration).

³⁴ *See* Sunil R. Kulkarni, *All Professors Create Equally: Why Faculty Should Have Complete Control Over the Intellectual Property Rights In Their Creations*, 47 *Hastings L. J.* 221 (Nov. 1995); *see also* Robert A. Gorman, *The Rights of Faculty as Creators and Users*, *Academe*, May-June 1998, at 14-18.

³⁵ 517 U.S. 44 (1996).

³⁶ *See id.*

³⁷ *See Parden v. Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184 (1964).

Ultimately, the PRA, CRCA and the TRCA (to the extent it abrogated State immunity for false advertising claims) were found unconstitutional. In June, 1999, the Supreme Court invalidated the PRA and the false advertising provisions of the TRCA in *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*³⁸ and *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*.³⁹ In addition to finding that neither the PRA nor the challenged portions of the TRCA were proper exercises of Congress' Section 5 power, the Court also overruled the *Parden* doctrine. Subsequently, relying on the two *College Savings Bank* cases, two separate panels of the United States Court of Appeals for the Fifth Circuit voided the CRCA.⁴⁰

At the same time that the Court handed down the two *College Savings Bank* cases, it also decided *Alden v. Maine*.⁴¹ In *Alden*, the Court held that Congress could not use its Article I powers to subject nonconsenting States to private suits for damages in State court. Taken together, *Seminole Tribe* and *Alden* mean that Congress cannot rely on its Article I powers to abrogate State sovereign immunity from suit in either State or federal court. Because of the critical place they occupy in the current sovereign immunity landscape, each of these three post-*Seminole Tribe* decisions—the two *College Savings* rulings and *Alden*—warrant further elaboration.

A. *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank* (“The Patent Case”)

In *Florida Prepaid*,⁴² the Supreme Court, by a 5–4 vote, struck down the PRA. Relying on the PRA, College Savings Bank had filed a patent infringement suit against defendant, Florida Prepaid, alleging that the defendant had infringed College Savings Bank’s patent in the financing methodology used in its college savings program. After the Supreme Court handed down *Seminole Tribe*, the defendant moved to dismiss the suit. The district court denied the motion⁴³ and the Court of Appeals for the Federal Circuit affirmed.⁴⁴ The Supreme Court, however, reversed.

At the outset, the Court held that because *Seminole Tribe* prohibited Congress from abrogating State sovereign immunity pursuant to its Article I powers, the PRA could not be sustained under either the Commerce or Patent/Copyright Clauses. Next, although the Court recognized that Congress has the power to abrogate State immunity by enacting “appropriate legislation” under Section 5 of the Fourteenth Amendment,⁴⁵ it determined that the PRA was not a proper exercise of Congress’ Section 5 power. Several aspects of the Court’s Section 5 discussion bear special mention.

First, the majority found that patents are property for purposes of the Due Process Clause:

Patents . . . have long been considered a species of property. . . . As such, they are surely included within the “property” of which no person may be deprived by a State without due process of law. And if the Due Process Clause protects patents, we know of no reason why Congress might not legislate against their deprivation without due process under § 5 of the Fourteenth Amendment.⁴⁶

Second, the Court noted that, while patents are property for purposes of the Due Process Clause, that clause does not protect against every State patent infringement. It only encompasses those infringements that unconstitutionally deprive patent owners of their property *without due process of law*. The Court further seemed to hold that due process is violated only if intentional acts of infringement occur for which the State has failed to provide an adequate State remedy.⁴⁷

Third, the Court found that the PRA was not “appropriate legislation” under Section 5 because (1) it included all statutory infringements, not only those infringements that amount to constitutional violations, and (2) Congress had made no

³⁸ 527 U.S. 627 (1999).

³⁹ 527 U.S. 666 (1999).

⁴⁰ See *Chavez v. Arte Publico Press*, 204 F.3d 601 (5th Cir. 2000), and *Rodriguez v. Texas Comm’n on the Arts*, 199 F.3d 279 (5th Cir. 2000).

⁴¹ 527 U.S. 706 (1999).

⁴² 527 U.S. 627 (Fed. Cir. 1999).

⁴³ 948 F. Supp. 400 (N.J. 1996).

⁴⁴ 148 F.3d 1343 (1998).

⁴⁵ As it had in *Seminole Tribe*, 517 U.S. at 59, the Court reaffirmed its holding in *Fitzpatrick v. Bitzer*, 427 U.S. 445 (1976), that Section 5 of the Fourteenth Amendment permitted Congress to abrogate State sovereignty in order to enforce rights protected by the Amendment. *Florida Prepaid*, 527 U.S. at 636–37.

⁴⁶ *Florida Prepaid*, 527 U.S. at 642 (emphasis added) (internal citations omitted).

⁴⁷ See 527 U.S. at 646–47.

record showing a need for it to reach beyond constitutional violations in order to protect constitutional rights. The Court noted in this connection that:

In enacting the Patent Remedy Act . . . Congress identified no pattern of patent infringement by the States, let alone a pattern of constitutional violations. Unlike the undisputed record of racial discrimination confronting Congress in the voting rights cases. . . . Congress came up with little evidence of infringing conduct on the part of the States. The House Report acknowledged that “many states comply with patent law” and could provide only two examples of patent infringement suits against the States. The Federal Circuit in its opinion identified only eight patent-infringement suits prosecuted against the states in 110 years between 1880 and 1990. . . . At most, Congress heard testimony that patent infringements by States might increase in the future . . . and acted to head off this speculative harm.⁴⁸

B. College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board (“The Trademark Case”)

In *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 527 U.S. 666 (1999), the Court sustained the Third Circuit’s decision⁴⁹ that the portions of the Trademark Remedy Clarification Act (TRCA), which subject States to suits under Section 43(a) of the Lanham Act⁵⁰ for false and misleading advertising, are unconstitutional.⁵¹

In *College Savings*, the bank alleged that Florida Prepaid had violated Section 43(a) of the Lanham Act by making misstatements about Florida Prepaid’s postsecondary tuition savings plan in its brochures and annual report.⁵² Florida Prepaid moved to dismiss the case on the basis that the State’s sovereign immunity barred the suit. Both the District Court for the District of New Jersey and the Court of Appeals for the Third Circuit agreed.⁵³ The Supreme Court granted certiorari and affirmed by a 5–4 vote.⁵⁴

The Court rejected the petitioner’s assertion that the TRCA was valid Section 5 legislation. It found that neither the right to be free from a business competitor’s false advertising about the competitor’s own product, nor a general right to be secure in one’s business interests constituted “property” for due process purposes.⁵⁵ Because no deprivation of property occurred, the Court saw no need to inquire “whether the prophylactic measure taken under purported authority of § 5 . . . was genuinely necessary to prevent violation of the Fourteenth Amendment.”⁵⁶ The Court acknowledged, however, that the Lanham Act may protect other interests that qualify as property under the Due Process Clause: “The Lanham Act may well contain provisions that protect constitutionally cognizable property interests—not-

⁴⁸*Florida Prepaid*, 527 U.S. at 640–41 (internal citations omitted). Justice Stevens wrote a dissenting opinion joined by Justices Souter, Ginsburg and Breyer. The dissent criticized the majority for retroactively imposing a heavy evidentiary burden on Congress:

[T]his Court has never mandated that Congress must find “widespread and persistent deprivation of constitutional rights” . . . in order to employ its § 5 authority. It is not surprising, therefore, that Congress did not compile an extensive legislative record analyzing the due process (or lack thereof) that each state might afford for a patent infringement suit retooled as an action in tort. In 1992, Congress had no reason to believe it needed to do such a thing; indeed, it should not have to do so today.

Florida Prepaid, 527 U.S. at 660 (Stevens, J., dissenting) (internal citation omitted).

⁴⁹131 F. 3d 353 (3rd Cir. 1997).

⁵⁰15 U.S.C. § 1125(a).

⁵¹Section 43(a) creates a private cause of action against “[a]ny person” who uses false descriptions or makes false representations in commerce. The TRCA amends 43(a) to define “any” person to encompass “any State, instrumentality of a State, or employee of a State or instrumentality of a State acting in his or her official capacity.” 15 U.S.C. § 1125(a)(2). The TRCA also amends the Lanham Act to make explicit that such State entities “shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity, for any violation [of this Act]” and that remedies shall be available against such State entities “to the same extent as such remedies are available . . . in a suit against [a non-state entity.]” 15 U.S.C. § 1122(b)-(c).

⁵²See *College Savings*, 527 U.S. at 670–71.

⁵³See *College Savings Bank v. Florida Prepaid Postsecondary Education Board*, 948 F. Supp. 400 (D. N.J. 1996), *aff’d*, 131 F.3d 353 (3rd Cir. 1997).

⁵⁴527 U.S. 666 (1999) (Scalia, J.).

⁵⁵See *College Savings*, 527 U.S. at 673. (“The Lanham Act’s false-advertising provisions . . . bear no relationship to any right to exclude; and Florida Prepaid’s alleged misrepresentations concerning its own products intruded upon no interest over which petitioner had exclusive dominion.”)

⁵⁶*College Savings*, 527 U.S. at 673.

bly, its provisions dealing with the infringement of trademarks, which are the 'property' of the owner because he can exclude others from using them."⁵⁷

The Court then addressed the argument that the State of Florida had voluntarily waived its immunity from federal court jurisdiction in false advertising cases. Finding that Florida Prepaid had not *expressly* consented to suit in federal court, the Court considered whether the law could be sustained under the constructive-waiver doctrine enunciated in *Parden*.⁵⁸ After asserting that the Court had narrowed *Parden* over the years, Justice Scalia's opinion for the Court "drop[ped] the other shoe" and expressly overruled *Parden's* constructive waiver doctrine.⁵⁹

Finally, the *College Savings Bank* Court suggested the possibility that Congress could constitutionally use its Spending Clause power to require a State to waive its immunity from suit in order to receive its federal funds, as long as "the financial inducement offered by Congress [is not] so coercive as to pass the point at which 'pressure turns into compulsion.'"⁶⁰

C. *Alden v. Maine*

*Alden v. Maine*⁶¹ presented the Court with the question whether Congress can use its Article I powers to subject nonconsenting States to private suits for damages in *State court*.

In *Alden*, a group of probation officers sued the State of Maine, alleging that it had violated the overtime provisions of the Fair Labor Standards Act of 1938 (FLSA).⁶² Relying on *Seminole Tribe*, the district court dismissed the lawsuit on sovereign immunity grounds, and the Court of Appeals for the First Circuit affirmed.⁶³ Subsequently, the probation officers brought the same claim in Maine State court, which also dismissed on sovereign immunity grounds. The Maine Supreme Court affirmed,⁶⁴ and the United States Supreme Court granted certiorari.⁶⁵

By another, identical 5–4 division, the Court held that the State immunity from suit recognized in *Seminole Tribe* with respect to federal causes of action applied in State as well as federal court.⁶⁶ Thus, after *Alden*, even if Congress were to give State courts concurrent jurisdiction over federal patent or copyright statutory infringement suits,⁶⁷ nonconsenting States would nonetheless be immune from such actions.

The combination of these three Supreme Court decisions set the stage for the invalidation of the CRCA.

D. *Chavez v. Arte Publico Press*

Several months after the Supreme Court rendered its opinions in the two *College Savings Bank* cases and *Alden*, the Fifth Circuit found the CRCA invalid in *Chavez v. Arte Publico Press*.⁶⁸ The litigation in *Chavez* commenced in 1993, when an author, Denise Chavez, filed suit against the University of Houston Press—a State entity—for copyright infringement arising out of a dispute regarding her publishing agreement with the University. Previously, a Fifth Circuit panel had found the CRCA to be constitutional in *Chavez v. Arte Publico Press*.⁶⁹ That decision was based on the subsequently discarded *Parden* constructive-waiver theory. The Supreme Court vacated and remanded for reconsideration in light of *Seminole Tribe*.⁷⁰

⁵⁷ *Id.* at 673.

⁵⁸ 377 U.S. 184 (1964).

⁵⁹ *College Savings*, 527 U.S. at 680.

⁶⁰ *Id.* at 687.

⁶¹ 527 U.S. 706 (1999).

⁶² 29 U.S.C. § 201 *et seq.*

⁶³ See *Mills v. Maine*, 853 F. Supp. 551 (D. Me. 1994), *aff'd*, 118 F.3d 37 (1st Cir. 1997).

⁶⁴ *Alden v. Maine*, 715 A.2d 172 (Me. 1998).

⁶⁵ See 527 U.S. 706 (1999).

⁶⁶ *Id.*

⁶⁷ During deliberations on the CRCA, Congress expressly considered a proposal to give State courts concurrent copyright jurisdiction, but rejected that idea because such State court jurisdiction would be at odds with the uniform system of copyright protection that was a key goal of Congress in enacting the Copyright Revision Act of 1976. Such concurrent jurisdiction "creates the potential for differing standards and results. . . ." H. R. Rep. No. 101–282, at 9 (1989).

⁶⁸ 204 F.3d 601 (5th Cir. 2000). A separate panel of the Fifth Circuit also found the CRCA to be unconstitutional in *Rodriguez v. Texas Comm'n on the Arts*, 199 F.3d 279 (5th Cir. 2000). *Rodriguez* involved a claim that the State of Texas had violated plaintiff's copyright by using his design for State license plates without authorization. Relying on *College Savings Bank*, the court, in a very brief opinion, found the copyright claim to be indistinguishable from the patent claim in *College Savings Bank* and held the CRCA unconstitutional.

⁶⁹ 59 F.3d 539 (5th Cir. 1995).

⁷⁰ *University of Houston v. Chavez*, 517 U.S. 1184 (1996).

After a second panel decision,⁷¹ the case was again remanded to the panel⁷² for reconsideration in light of *College Savings Bank* and *Florida Prepaid*. The Fifth Circuit panel then held that the CRCA “was doomed” in light of *Florida Prepaid*.⁷³

III. CONGRESS’ LEGISLATIVE OPTIONS AFTER THE *College Savings Bank* and *Alden* Cases

Congress must now assess how it can respond to these decisions in a constitutional and effective manner. Despite the fact that Congress can no longer use its Article I powers to abrogate State sovereign immunity, we believe that Congress has sufficient tools at its disposal to fashion legislation that fits within the contours of the Court’s recent decisions and also effectively implements Congress’ desire to remove the harm to copyright owners caused by States’ freedom to infringe copyrighted works without having to pay damages.

As noted above, in PORA’s view, any forthcoming legislation should:

- Condition the State’s ability to obtain judicial remedies available under the federal intellectual property system on State waivers of sovereign immunity from suit in federal court for State infringements of private intellectual property rights;
- Abrogate State sovereign immunity in suits brought to redress unconstitutional infringements of federal intellectual property rights; and
- Codify the doctrine of *Ex parte Young*, thereby affirming the availability of injunctive and monetary relief in infringement suits brought against state officials and employees.

A. *Conditioning Certain Federal Intellectual Property Benefits on State Waivers of Sovereign Immunity*

Mr. Chairman, it is critical that any forthcoming legislation should contain a “waiver” provision that conditions a State’s ability to obtain judicial remedies under the federal intellectual property system on the State’s waiver of its sovereign immunity from such remedies. We believe that Congress has power to condition a State’s ability to obtain a federal judicial remedy upon the State’s waiver of its own immunity.

1. The Remedies Bar

Section 3 of H.R. 2344 would deny a non-waiving State the ability to recover monetary damages when it sues to protect its own intellectual property rights, but leave it free to obtain injunctions.⁷⁴ We wholeheartedly agree that non-waiving States should not be eligible to obtain money damages. While we strongly support this provision of the bill, however, we respectfully question whether permitting States to retain their sovereign immunity while still allowing them to obtain injunctive relief is fair or would provide many States with a sufficient reason to waive their immunity. For that reason, we urge the Committee to give careful consideration to amending H.R. 2344 so as to bring both injunctive relief and damages within the remedies bar for non-waiving States.

In deciding whether to expand the reach of the remedies bar to include injunctions, we urge you to keep in mind that H.R. 2344, unlike a predecessor bill in the 106th Congress, S. 1835, does not condition a State’s *ownership* of intellectual property rights on a waiver of its sovereign immunity. Rather, under H.R. 2344, non-waiving States would be free both to obtain these rights and to exploit them in the marketplace.⁷⁵ We propose only that they (or their assignees) lose the ability to obtain federal judicial remedies unless the State waives its immunity from such remedies.

2. Straightforward Process

College Savings and *Florida Prepaid* made clear that a waiver of State sovereign immunity must be both knowing and voluntary.⁷⁶ Thus, the waiver provision must offer States a clear and unambiguous choice between waiving their immunity from

⁷¹*Chavez v. Arte Publico Press*, 157 F.3d 282, 287 (5th Cir. 1998).

⁷²*Chavez v. Arte Publico Press*, 180 F.3d 674 (5th Cir. 1999).

⁷³*Chavez v. Arte Publico Press*, 204 F.3d 601 (5th Cir. 2000).

⁷⁴As discussed below, under certain circumstances the “remedies bar” would affect non-State plaintiffs as well.

⁷⁵With respect to copyrights, States would be afforded Copyright in their original works and would be free to register those works at any time after creation.

⁷⁶See *College Savings*, 527 U.S. at 679–681.

suit or foregoing access to certain judicial remedies. The waiver provision must clearly spell out the consequences for the State in making this choice. We believe that Section 3 of H.R. 2344 achieves that goal.

H.R. 2344 also sets forth in clear and straightforward language the procedural steps governing the waiver process. Most importantly, the bill:

- Specifies that, if a State chooses to waive its immunity, the waiver is to be made in accordance with the constitution and laws of the State; and
- Gives States a reasonable amount of time—up to two years—to make the decision to waive without any risk of losing existing rights.

3. Safeguards Against End-Runs

We appreciate the fact that H.R. 2344 incorporates language into the voluntary waiver provision to help prevent “end runs” around the remedies bar applicable to non-waiving States. We certainly do not want States to be free to easily evade making the choice required by the Act. A non-waiving State should therefore be subject to the remedies bar, regardless of whether it acquired ownership by being the author of the work (by virtue of its creation by an employee or pursuant to a valid work-made-for-hire agreement),⁷⁷ or by exclusive license or assignment.

We also agree that this bar should not only affect States bringing suits, but also those plaintiffs who exclusively license or assign works to or from the State under certain circumstances. Otherwise, for example, a State could evade the bar by assigning its exclusive rights to a private party for a one-time payment. Without an anti-end-run provision, the private party would, on the State’s behalf, have access to all available remedies. By barring remedies where the State “is or was at any time the legal or beneficial owner,”⁷⁸ H.R. 2344 provides a useful way to thwart unfair circumvention of the remedies bar.

At the same time, the bill should not unfairly prejudice private parties; Section 3 of the bill appears to achieve that important goal. It makes the remedies bar inapplicable in two instances where to do otherwise would be extremely unfair to a private party where: (1) applying the remedies bar “would materially and adversely affect a legitimate contract-based expectation that was in existence before January 1, 2004”; and (2) a downstream bona fide purchaser of an intellectual property right did not know that a State was once the legal or beneficial owner of that right.

B. Abrogation of Immunity in Suits Based on Constitutional Violations

1. The Scope of Abrogation

Section 5 of the Fourteenth Amendment gives Congress the power to remedy un-constitutional State deprivations of life, liberty and property through “appropriate legislation” and, in the past few years, the Supreme Court has repeatedly stated that Congress has the power to abrogate State immunity by invoking this authority.⁷⁹ Yet, in *College Savings* and *Florida Prepaid*, the Court voided congressional efforts to do this, holding that the federal laws involved were not “appropriate” legislation under Section 5. We believe that by closely adhering to the Court’s opinions—particularly that in *Florida Prepaid*—Congress can craft a constitutional and effective abrogation provision.

As H.R. 2344 recognizes, the key to fashioning an appropriate abrogation provision is to have it remove State immunity only in those cases where State infringements constitute unconstitutional deprivations of the property rights of intellectual property owners. Thus, unlike the CRCA which applied to *all* State copyright infringements, H.R. 2344 is expressly limited to *unconstitutional* violations of federal intellectual property rights—*i.e.*, those violations that violate either the due process

⁷⁷Section 101 of the Copyright Act allows a commissioning party of a work to be deemed the author of a work if the work falls within certain specified categories. See 17 U.S.C. 101.

⁷⁸Section 502(a) of the Copyright Act gives the “legal or beneficial owner” standing to sue for infringement. See 17 U.S.C. 502(a). Thus, copyright suits typically arise in two situations. The first involves the legal owner, or the person who holds title to the rights. The second category enables someone who used to own the rights to sue, if he or she retains a beneficial interest in the rights—for example, in the form of a continuing royalty obligation. Thus, an author who assigned a copyright to a publishing house for a continuing royalty would no longer be the legal owner, but would not have to watch her asset evaporate if the publisher decided not to bring suit. If, however, the author assigns the copyright for a *one-time* payment, the author is neither the beneficial nor the legal owner and has no standing to sue for infringement. See *Hearn v. Meyer*, 664 F. Supp. 832, 840–41 (S.D.N.Y. 1987); *Cavallo, Ruffolo & Fargnoli v. Torres*, 1988 U.S. Dist. LEXIS 16881 (C.D. Cal. 1988).

⁷⁹See, e.g., *Seminole Tribe*, 517 U.S. at 59 (1996); *Flores*, 521 U.S. 507, 507–508 (1997); *Florida Prepaid*, 527 U.S. at 635–39 (Rehnquist, J.); *College Savings*, 527 U.S. at 669–70 (Scalia, J.).

or the takings clause. Such an approach directly follows the central teaching of *Florida Prepaid* that not every infringement of a federal intellectual property right violates the Fourteenth Amendment.

In July 2000, before this Subcommittee, Harvard Law School Professor Daniel Meltzer suggested enactment of this form of abrogation legislation.⁸⁰ At that time, and again in a subsequent law review article,⁸¹ Professor Meltzer suggested that such a form of abrogation was not dependent upon Congress making a record of widespread unconstitutional activity by States:

I do not read these recent decisions as holding that any exercise of Section 5 power is valid only upon such a showing of widespread violations; that showing is demanded, *rather, only when the congressional measure reaches broadly to regulate conduct that is not independently unconstitutional.* For in each of the cases in which the Supreme Court has found a federal statute regulating the States to fall beyond the scope of Section 5 power, the enactment regulated at least some conduct that itself did not violate Section 1 of the Fourteenth Amendment. Thus, in *Florida Prepaid*, for example, the Court found that the statute—by regulating patent infringement that was unintentional, and whether or not state post-deprivation remedies were available—regulated conduct that did not itself constitute a deprivation of due process. *Where Congress does reach beyond regulating actual constitutional violations, these recent decisions clearly require a strong showing of legislative need. . . .* By contrast, the proposed legislative measure just discussed would be tailored so that it, unlike the statutes recently invalidated by the Court, extends only to instances of constitutional violations. Such a measure is more easily viewed as “remedial,” and in my view the validity of a statute that merely regulates unconstitutional conduct itself should not require an additional showing of widespread violations by the states. *Examination of the record of state violations is significant only when a statute reaches well beyond the scope of constitutional violations.*⁸²

At least one federal appeals court has acted in a manner consistent with H.R. 2344’s treatment of abrogation and Professor Meltzer’s suggested approach. In *Cherry v. University of Wisconsin System Board of Regents*,⁸³ the Seventh Circuit upheld Congress’ abrogation of State sovereign immunity from suits brought under the federal Equal Pay Act (EPA). In finding the congressional abrogation under the EPA to be constitutional, the appeals court, citing *Kimel v. Florida Board of Regents*,⁸⁴ noted that “the lack of [evidentiary] support in the legislative record ‘is not determinative of the § 5 inquiry’”⁸⁵ and went on to distinguish the situation in *Cherry* from recent Supreme Court rulings where the Court found the absence of evidence critical:

But unlike the statutes at issue in *City of Boerne*, *Kimel*, *Florida Prepaid*, and *Garrett*, all of which pervasively prohibit constitutional State action, the EPA ‘prohibits very little constitutional conduct.’ *Precisely because the EPA essentially targets only unconstitutional gender discrimination, the importance of congressional findings of unconstitutional State action is ‘greatly diminished.’* (emphasis added) (internal citations omitted).⁸⁶

In its recent decisions, the Supreme Court has held that State infringements are unconstitutional only if: (1) they are intentional or non-negligent;⁸⁷ and (2) the State provides no adequate remedy for them. In our view it is especially important that the statute make clear that the State, not the plaintiff, has the burden of dem-

⁸⁰ See Oversight Hearing on “State Sovereign Immunity and the Protection of Intellectual Property” Before the House Comm. on the Judiciary, Subcomm. on Courts, the Internet, and Intellectual Property, 106th Cong. (2000) (Testimony of Professor Daniel Meltzer) available at <http://www.house.gov/judiciary/courts.htm>.

⁸¹ See Daniel Meltzer, *Overcoming Immunity: The Case of Federal Regulation of Intellectual Property Rights*, 53 Stan. L. Rev. 1331 (2001).

⁸² *Id.* at 1347–48 (emphasis added).

⁸³ 265 F. 3d 541 (7th Cir. 2001), rehearing denied, *en banc*, 2001 U.S. App. LEXIS 28344 (7th Cir. Wis. Oct. 11, 2001).

⁸⁴ 528 U.S. 62, 73 (2000).

⁸⁵ *Cherry*, 265 F.3d at 553.

⁸⁶ *Id.* at 553.

⁸⁷ With respect to the scienter issue, the legislative history should indicate that it would be overly burdensome and restrictive to require the plaintiff to show that the State knew that the harm amounted to a constitutional violation. See Oversight Hearing on “State Sovereign Immunity and Intellectual Property” Before the House Comm. on the Judiciary, Subcomm. on Courts, the Internet, and Intellectual Property, 106th Cong. (2000) (Testimony of Professor Daniel Meltzer) available at <http://www.house.gov/judiciary/courts.htm>.

onstrating that it provides an adequate remedy and that this determination should be made by the judge in the federal proceeding.⁸⁸ Section 5(d)(2) of H.R. 2344 correctly places this critical burden on the State or its instrumentality.

2. The Breadth of the Evidentiary Record

Although perhaps not constitutionally necessary, it is advisable for Congress to “assemble the most complete record possible of instances in which state governments have violated federal intellectual property laws and, beyond that, of instances in which those violations appear also to constitute violations of the Due Process Clause.”⁸⁹ In part to help develop such a record, in June 2000, Senate Judiciary Committee Chairman Hatch requested that the GAO undertake a study⁹⁰ that, among other things, would compile instances of alleged State infringements of intellectual property rights.

In September, 2001, GAO issued its report entitled “Intellectual Property: State Immunity in Infringement Actions.” As to instances of past State infringements, GAO was able to document 58 instances of unauthorized use of intellectual property by a State since 1985.⁹¹ GAO based its findings on a review of published case law and a survey of the States.

While GAO felt compelled to characterize the number of accusations of State infringements as “few,”⁹² this characterization fails to take into account a number of critical factors. First, GAO itself acknowledged that it faced substantial difficulties in attempting to come up with an accurate assessment of all past accusations of state infringements of intellectual property, in part because “there are no summary databases providing such information.”⁹³ In addition, GAO acknowledged that:

- “The published case law is an incomplete record, because (1) both the federal and state courts report only those cases in which decisions were rendered and (2) state courts usually report only appellate decisions. Thus, lawsuits that were dropped or settled by any court prior to a decision as well as those decided by state trial courts might not appear in the published case law”;⁹⁴
- Accusations set forth in cease and desist letters are often resolved administratively, do not result in the filing of a lawsuit, and thus are not reflected in published case law;⁹⁵ and

⁸⁸ Federal courts routinely examine the adequacy of State remedies in areas much more central to the State’s power as a sovereign. For example, under the Tax Injunction Act, 28 U.S.C. § 1341, the District Courts may enjoin the levy or collection of any tax where no “plain, speedy and efficient” remedy exists under State law. *See generally* Annotation, *Supreme Court’s construction and application of Tax Injunction Act (28 USC § 1341, and similar predecessor provisions), restricting Federal District Courts from interfering with assessment, levy, or collection of state taxes*, 132 L. Ed. 2d 997 (1999). Other forms of review of the adequacy of State remedies occur routinely in the *habeas corpus* context. In both the tax and the *habeas* areas, the State’s sovereign interest is far stronger than in the intellectual property context where the Constitution gives Congress exclusive control over the extent of those rights and the form they might take.

⁸⁹ Daniel Meltzer, *Overcoming Immunity: The Case for Federal Regulation of Intellectual Property*, 53 Stan. L. Rev. 1331 at 1353 (2001).

⁹⁰ Letter from Sen. Orrin G. Hatch, Chairman, United States Senate Committee on the Judiciary, to Mr. David Walker, Comptroller General, General Accounting Office (June 23, 2000) (on file with the author). Specifically, Chairman Hatch requested that the GAO examine:

- (1) the extent to which States have been the subject of claims of patent, trademark, or copyright infringement in the past,
- (2) the remedies—including waiver of sovereign immunity—that States have adopted or employed to protect intellectual property owners against state infringements, and
- (3) the extent to which States are participating in the Federal intellectual property system as intellectual property owners.

Id. Chairman Hatch also asked GAO “to gather information from the States and the intellectual property community on the role that States do or should play in protecting the rights of intellectual property owners.” *Id.*

⁹¹ United States General Accounting Office, *Intellectual Property: State Immunity in Infringement Actions*, at 7 (2001) (Rep. No. GAO-01-0811) [hereinafter GAO Report].

⁹² *Id.* at 7.

⁹³ *Id.*

⁹⁴ *Id.*

⁹⁵ *Id.* at 7–8.

- Some lawsuits are not easily identified as either involving (1) unauthorized use of intellectual property, or (2) a state entity that could claim sovereign immunity.⁹⁶

Second, in reviewing GAO's 2001 findings, it is imperative to keep in mind two critical factors: (1) too short a period of time has elapsed since the decisions by the Supreme Court and the Fifth Circuit to assess whether they will result in changed State practices; and (2) States were considered fully liable for copyright infringement for the vast majority of the last twenty-five years. This latter point deserves some elaboration.

Until the Court's 1986 decision in *Atascadero*,⁹⁷ it was widely understood that when Congress passed the 1976 Copyright Revision Act, it intended States to be liable for their acts of infringement just like any other party, except in those circumstances where they were expressly exempted from liability. This was, for example, the view set forth in the House and Senate Committee Reports on the CRCA.⁹⁸ It was also the position of Representative Kastenmeier, who chaired the House Judiciary Subcommittee involved in the consideration of both the CRCA and the 1976 Act,⁹⁹ and of the Registers of Copyrights at the time of the passage of the CRCA and the 1976 Act.¹⁰⁰

This general understanding of the 1976 Act's reach was not drawn into question until after the Supreme Court's decision in *Atascadero*. Indeed, just prior to *Atascadero*, one federal court ruled that the 1976 Act had effectively abrogated State copyright immunity.¹⁰¹ After *Atascadero*, federal courts started reaching the opposite result.¹⁰² This change from full State liability to immunity was short-lived, however. As noted above, the 101st Congress moved quickly after *Atascadero*, and, in November 1990, the CRCA became law. As a result, between late 1990 and the Supreme Court's 1999 decisions, States were once again subject to the full panoply of remedies available under the Copyright Act.

In sum, from 1976 until 1985, and from 1990 until at least 1999, States have necessarily operated under the assumption that they were fully liable for copyright infringements. The States may just be beginning to grasp the potential impact of the *College Savings Bank* decisions in the copyright context. It is entirely reasonable for the 108th Congress to conclude that State infringements will become commonplace in the absence of the enactment of remedial legislation by Congress—especially given the ease with which digital copies can be made and disseminated and the growth of State university and agency Intranets.¹⁰³ When viewed against this background, one can better understand why the Patent and Trademark Office did not view the 58 documented cases identified by GAO as few in number,¹⁰⁴ and the Copyright Office¹⁰⁵ expressed no surprise at the number of cases identified in the

⁹⁶ *Id.* at 8. Given these inherent difficulties, GAO sought to supplement its database of accusations of state infringements by surveying state institutions of higher education and state attorneys general. *Id.* at 8–9. Thirty-six of the 50 attorneys general and 99 out of 140 institutions responded to GAO's survey. But, as acknowledged by GAO, the responses to these surveys "offered no assurance that we had identified all the accusations . . . as the respondents themselves did not always have such information." *Id.* at 9.

⁹⁷ 743 U.S. 234 (1985).

⁹⁸ See H.R. Rep. No. 101–282, at 5 (1989); S. Rep. 101–305, at 5 (1990).

⁹⁹ See H.R. Rep. No. 101–282, at 11 (1989) (statement of Rep. Kastenmeier) (quoting 135 CONG. REC. E525).

¹⁰⁰ In response to a question from Chairman Kastenmeier as to whether it was her understanding that States were and knew that they were liable for infringement under the 1976 Act, Barbara Ringer, former Register of Copyrights, replied: "Absolutely." H.R. Rep. No. 101–282, at 6 (1989) (quoting *Copyright Remedy Clarification Act and Copyright Office Report on Copyright Liability of States: Hearings on H.R. 1131 Before the Subcomm. on Courts, Intellectual Property, and the Admin. of Justice of the House Comm. on the Judiciary*, 101st Cong. 97 (1989)); see also *id.*, at 6 (statement of Ralph Oman, Register of Copyrights).

¹⁰¹ *Johnson v. University of Virginia*, 606 F. Supp. 321, 324 (W.D. Va. 1985).

¹⁰² See, e.g., *BV Engineering v. UCLA*, 858 F.2d 1394, 1396–1398 (9th Cir. 1988); *Richard Anderson Photography v. Brown*, 852 F.2d 114, 118 (4th Cir. 1988).

¹⁰³ In this regard, Congress may take notice of the number of takedown notices under Section 512 of the DMCA issued to state institutions.

¹⁰⁴ See Letter from Nicholas P. Godici, Acting Under Secretary of Commerce For Intellectual Property and Acting Director of the United States Patent and Trademark Office, to Jim Wells, Director, National Resources and Environment, General Accounting Office (September 5, 2001), reprinted in GAO Report at 69.

¹⁰⁵ See letter from David Carson, General Counsel, United States Copyright Office, to Jim Wells, Director, National Resources and Environment, General Accounting Office (August 28, 2001), reprinted in GAO Report at 72. (Noting that in the Copyright Office's view, too little time had passed since the Supreme Court's rulings to assess possible increases in infringing activity and that "from the enactment of the first Copyright Act in 1790 until the Supreme Court's decisions in June, 1999 States had good reason to believe that they were subject to the full range

GAO's report. Moreover, as SIIA, one of PORA's members, reports in its testimony today, its anti-piracy program has identified numerous matters since the *College Savings Bank* cases involving infringements by state instrumentalities in which States have orally and/or in writing asserted sovereign immunity in response to a monetary claim by SIIA. It is reasonable to assume that state infringements will only increase unless checked by Congress.

3. Due Process and Takings Violations

PORA agrees that the new statute should expressly provide for abrogation of State immunity in suits for State infringements that constitute violations of *either* the Due Process or the Takings Clauses. In our view, Section 5 of H.R. 2344 wisely sets forth these two bases for abrogation in separate provisions so that the statute's severability clause can preserve one should the other be held unconstitutional.

4. Congressional Review of the Adequacy of State Remedies

In his opinion for the Court in *Florida Prepaid*, Chief Justice Rehnquist chided Congress for not thoroughly examining the availability of State remedies with respect to patent infringements.¹⁰⁶ In the CRCA context, however, Congress had before it, as part of the Copyright Office Report, the aforementioned Congressional Research Service study. That study revealed the very limited, inconsistent nature of State remedies available to copyright owners victimized by State infringements.¹⁰⁷ A more recent analysis of the sovereign immunity practices in fourteen States made by an *amicus curiae* in Florida Prepaid demonstrated the limited, haphazard remedies those States afford for State patent infringements (and presumably for State copyright infringements as well).¹⁰⁸ In the same vein, the recent GAO report concluded that intellectual property owners have few alternatives or remedies against state infringement after *Florida Prepaid*.¹⁰⁹

The GAO report recognizes that a State currently cannot be sued for damages in federal court except in the unlikely event that the State waives its Eleventh Amendment immunity.¹¹⁰ Absent such a waiver, the GAO states accurately that the intellectual property owner is limited to seeking an injunction in federal court against the infringing official. GAO correctly terms such injunctions as an "incomplete remedy."

With regard to the state court proceedings, the GAO's study questioned whether litigants would obtain damage awards in such cases because of a number of factors: federal preemption of state claims; exclusive federal court jurisdiction over federal patent and copyright (but not trademark) claims; the absence of recognized causes of action under state laws; and the fact that, in addition to their Eleventh Amendment immunity, States typically enjoy immunity from suit in their own courts via statutory or constitutional provisions.¹¹¹

5. Recital of Congressional Authority

of remedies if they infringed a copyright.") In addition, the Copyright Office agreed with the shortcomings that the GAO had acknowledged with respect to the methodology GAO employed:

[T]he public case law is an inadequate record of infringement litigation because it includes only reported cases, and the surveys of the state attorneys general, universities and bar associations are limited by the inability of the respondents to identify all claims of infringement or even lawsuits alleging infringement by States or State entities. For these reasons we are not surprised that this study yielded relatively few examples of infringements by States.

Id.
¹⁰⁶"Congress . . . barely considered the availability of state remedies for patent infringement and hence whether the States' conduct might have amounted to a constitutional violation under the Fourteenth Amendment." *Florida Prepaid*, 527 U.S. at 643.

¹⁰⁷Copyright Office Report, *supra* note 13, at CRS 1–23.

¹⁰⁸Brief of *Amicus Curiae* Association of American Railroads (AAR) in Support of Respondents, *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, No. 98–531 at [appendix] 1a–19a (1999) (AAR Brief). "Based on the state law existing at the time of enactment, Congress could easily have found that some states did not provide adequate process to parties injured by a state's patent infringement. In some cases, state legal remedies for patent infringement were nonexistent, while in others, they were seriously questionable or otherwise inadequate." AAR Brief at 13.

¹⁰⁹See GAO Report, *supra* note 90, at 2. ("Intellectual property owners appear to have few proven alternatives or remedies against state infringement available if they cannot sue the states for damages in federal court.")

¹¹⁰See *id.* at 15. In this regard, the GAO noted that it did not identify any cases in which state defendants in infringement cases had waived their immunity in federal court. Thus, without the type of incentive built into H.R. 2344, it should not be anticipated that such waivers will be forthcoming.

¹¹¹See *id.* at 3.

We urge that the statute, or at least the accompanying legislative history, state in unambiguous and unequivocal terms that Congress is relying on its 14th Amendment enforcement powers in abrogating State sovereign immunity. The Court's treatment of the just compensation issue in *Florida Prepaid*¹¹² raises some concern that, in the future, the Court may formally break away from its "no recital" rule¹¹³ and require Congress expressly to refer to the relevant constitutional provisions when seeking to enact "appropriate" remedial legislation under Section 5 of the 14th Amendment. To avoid any such problem here, Congress should clearly and explicitly state its reliance on its Section 5 power to enforce the due process and takings clauses.

6. "Property" For Purposes of the Due Process and Takings Clauses

The Court's *Florida Prepaid* and *College Savings* decisions leave little doubt that copyrights, patents and, presumably, trademarks are considered property for purposes of the Due Process Clause. Nonetheless, out of an abundance of caution, the accompanying legislative history should: (1) refer to the Court's discussion of the "property" issue in both *Florida Prepaid* and *College Savings*; and (2) review the general treatment in law of intellectual property as property.¹¹⁴

C. Codification of the *Ex Parte Young* Doctrine

H.R. 2344 properly calls for the codification of the *Ex parte Young* doctrine. Under this doctrine, an injured party can sue to enjoin a State official from violating federal law, even though the State itself remains immune from suit. In *Ex parte Young*, the Court held that State officials are stripped of any sovereign immunity when they perform acts that violate valid federal law:

If the Act which the state Attorney General seeks to enforce be a violation of the Federal Constitution, the officer in the proceeding under such enactment comes into conflict with the superior authority of that Constitution, and he is in that case stripped of his official or representative character and is subject in his person to the consequences of his individual conduct.¹¹⁵

The Court has frequently alluded to the *Ex parte Young* doctrine as a means by which private parties can obtain relief against State officials for violations of federal law. Most recently, the Court in *Alden v. Maine*, citing *Ex parte Young*, noted that sovereign immunity "does not bar certain actions against State officers for injunctive or declaratory relief."¹¹⁶ Nonetheless, two recent Court decisions, *Seminole Tribe of Florida v. Florida*,¹¹⁷ and *Idaho v. Coeur d'Alene Tribe of Idaho*,¹¹⁸ have raised concerns that, in some situations, the doctrine may not continue to provide the scope of relief it has afforded private parties in the past.

In *Seminole Tribe*, the Court found the doctrine inapplicable where Congress creates a detailed remedial scheme for the enforcement of a particular federal right. In such instances, the Court "hesitates" to allow a different and potentially broader

¹¹²In *Florida Prepaid*, the majority refused to consider the Just Compensation Clause as a basis for upholding the PRA because Congress had explicitly invoked its Article I and Due Process Clause powers and had made no reference to the Just Compensation Clause. *Florida Prepaid*, 527 U.S. at 642 n. 7.

¹¹³Prior to *Florida Prepaid*, long-standing precedent held that Congress is not required to recite the source of the constitutional power on which it relies. See *Woods v. Cloyd W. Miller Co.*, 333 U.S. 138, 144 (1948) ("[t]he constitutionality of action taken by Congress does not depend on recitals of the power which it undertakes to exercise"). Accord *EEOC v. Wyoming*, 460 U.S. 226, 243 n. 18 (1983). Under this precedent, it was of no consequence that Congress did not allude expressly to Section 5 when it enacted the CRCA, but did explicitly invoke Section 5 when it passed the PRA.

¹¹⁴For example, the legislative history might set forth Congress' understanding that property is properly viewed as a bundle of rights which, in general, have three characteristics—the right to assign, the right to exclude others from use and the right to inherit—and that copyrights, patents and trademarks possess all three of these characteristics. Cf. *College Savings*, 527 U.S. at 673 (casting trademarks as property); *Florida Prepaid*, 527 U.S. at 642 (casting patents similarly). With respect to copyrights, see, e.g., *Holmes v. Hurst*, 174 U.S. 82, 84–86 (1899) (describing the ancestry of copyright in the common law as a species of property); *Paige v. Banks*, 80 U.S. 608, 614 (1871) ("Independent of any statutory provision, the right of an author in and to his unpublished manuscripts is full and complete. It is his property. . . ."); *Mitchell Bros. Film Group v. Cinema Adult Theater*, 604 F.2d 852, 858 n. 8 (5th Cir. 1979) (stating that "the large amounts of capital presently invested in disseminating information and thought in newspapers, magazines, books, movies, and other forms of copyrightable material would flow elsewhere if there were no property right to protect the value of these investments.") (emphasis added).

¹¹⁵209 U.S. at 159–160.

¹¹⁶*Alden*, 527 U.S. at 757.

¹¹⁷517 U.S. 44 (1996).

¹¹⁸521 U.S. 261 (1997).

remedial path under *Ex parte Young*.¹¹⁹ Thus, there is concern that the more elaborate the remedial scheme accompanying a federal statute, the less likely a court will be to find the doctrine applicable. To avoid that result here, Section 4 of H.R. 2344 codifies the *Ex parte Young* doctrine so as to ensure its continued applicability in the future.

In *Idaho v. Coeur d'Alene Tribe of Idaho*, the Court found the *Ex parte Young* doctrine inapplicable to “special circumstances” affecting a State’s sovereignty.¹²⁰ Moreover, two members of the Court stated that, in their view, the Court should engage in an exacting case-by-case review before approving an *Ex parte Young* injunction.¹²¹ Chief Justice Rehnquist and Justice Kennedy opined that each potential grant of *Ex parte Young* jurisdiction should be evaluated by balancing the interests served by permitting federal jurisdiction against a State’s interests in keeping the federal forum closed.¹²² Section 4 of H.R. 2344 is designed to: (1) prevent future judicial reliance on a “special sovereignty” exemption to the doctrine; and (2) preclude the adoption by a Court majority of a case-by-case approach in intellectual property infringement cases.

CONCLUSION

Mr. Chairman, PORA supports the enactment of a constitutional and effective response to the Supreme Court’s 1999 sovereign immunity/intellectual property decisions. Your bill, H.R. 2344, contains the three components that we believe should be part of any forthcoming legislation in this area—waiver, constitutional abrogation and codification of the *Ex parte Young* doctrine. We also believe that the effectiveness of the bill’s waiver provision can be enhanced by precluding non-waiving States from obtaining damages and injunctions when they bring intellectual property infringement suits. We urge the Committee to act favorably on this legislation and to take the steps necessary to help ensure its enactment in the 108th Congress.

Mr. SMITH. Actually, you anticipated my first question, which was to ask you to elaborate on your suggestion on how we might strengthen the legislation. That was the amendment you just mentioned. Anything else you want to say about that as to—

Mr. BENDER. Well, that would strengthen it in two ways. One, I think it would increase the incentives for States to waive. And I think everybody agrees that that would be—everybody here, anyway, agrees that that would be the best situation, because then it would be a completely level playing field. And, to let the States do something that no one else can do, and that is, be able to get injunctions while remaining immune from damages no other user of the system can do, that seems to be at least asymmetrical.

But I think the most important point is that it would increase the incentive for States to waive, and that is the most desirable result.

Mr. SMITH. Thank you for the suggestion. Thank you for the answer.

Ms. Winner, I want to go to your written testimony. And I agree with Professor Bender that we don’t need to come up with a huge number of examples; in fact, we don’t need to come up with any, but we do have a significant number. You mentioned that there is no evidence of systematic infringement. I don’t think anyone is claiming that we have systematic infringement, systematic meaning, you know, methodical. But I think that there are a number of cases, you heard two I think given by Mr. Bohannon, one of which I referred to in my opening statement, you had another one. The two, you might recall, one dealt with the Maryland State hospital, the other dealt with the New Hampshire community college. You

¹¹⁹ See *Seminole Tribe*, 517 U.S. at 74.

¹²⁰ 521 U.S. 261 (1997).

¹²¹ *Id.* at 280.

¹²² *Id.* at 278.

heard Mr. Berman give an example of one in San Diego. And yet you say that public institutions continue to act with care, respect, and caution.

Surely you would agree that, though, in those three examples, those institutions did not act with care, respect, and caution. Would you agree with that?

Ms. WINNER. Well, I haven't heard their side of the story, of course. I have only heard the claimant's side of the story. So I guess I cannot answer that.

Mr. SMITH. Are you pleading ignorance?

Ms. WINNER. I guess so.

Mr. SMITH. No, don't do that. But let us presume that there are some examples. In the case of the Maryland State hospital, you had them actually negotiating a settlement between a quarter of a million and three quarters of a million dollars, and then suddenly invoke the sovereign immunity as a defense and, therefore, not settle. And in those two cases by Mr. Bohannon, that was examples of software piracy, as I recall. And I don't think anybody can condone those. But that is exactly what we are trying to get at, quite frankly. And maybe there haven't been as many examples as you would like, but, nevertheless, I think there have been a number.

Let me ask—

Ms. WINNER. Can I just be clear, that I am not trying to condone that behavior nor am I trying to say that there shouldn't be a remedy. I am only trying to say that as we try to craft a remedy, that we should be careful to do it in a way that doesn't put the substantial benefit of the research of public universities at risk in a situation over which they have no control, so that we have to do it carefully in a way that minimizes that risk.

Mr. SMITH. Right. Let me ask the other witnesses to comment on that point, that current remedies are not sufficient. If you can briefly explain why they are not sufficient. And also, Ms. Winner, let me just say that I think a couple of your concerns, that is, you know, getting ahead of the State legislators and so forth might be taken care of if we had an effective date in the legislation that was, quite frankly, a year or two off and gave the legislators time to decide whether or not they wanted to, shall we say, cooperate.

But let me ask Ms. Peters and Mr. Bohannon and Mr. Bender why, briefly, you think current State remedies are not sufficient.

Ms. PETERS. Well, the current at the most is rightsholders may be able to get injunctive relief. And I clearly believe that that is not sufficient. It basically deals with past infringements. If there is a pattern of infringements that goes on for a long time, getting an injunction does nothing to help. It is really not a deterrent to infringement in any way. People can keep doing it that knowing that the very most that could happen is they will get slapped on the wrist and say don't do it again.

Mr. SMITH. And no damages. Right.

Ms. PETERS. So money is really critical. And I think even Ms. Winner's testimony basically talks about how important money is. So the answer is, no, the current one is not enough.

Mr. SMITH. Mr. Bohannon, anything to add to that?

Mr. BOHANNON. I think Ms. Peters articulated it very well. I think, if I were to put it so succinctly, as Ms. Winner has docu-

mented, there are very successful tech transfer programs in universities. They are able to be successful because they not only benefit from the laws that the Congress has passed, that is, they can file patents, trademarks. In the case of copyrights, Congress has actually made a decision that, unlike the Federal Government, States can copy right. But it also benefits from the fact that under current Federal law, States can get damages. That is a deterrent effect that ensures that those licenses that they have out there stay to the true word of the license.

That is the problem we face right now. Injunctions can be very appropriate in certain circumstances. We are not asking you to take that away from us. What we are saying is that it doesn't give the backbone to what we think are very positive statements that Ms. Winner has identified about making sure that people do the right thing. But our experience also says that you need to have effective enforcement to make sure that it is done across the board.

Mr. SMITH. Thank you, Mr. Bohannon.

Briefly, Professor Bender? Anything to add?

Mr. BENDER. Just one thing to add. You have to bear in mind that you can't get damages in State courts under State laws, either. Most State remedies have been preempted by Congress. States have sovereign immunity in their own courts. And Congress can't even put the jurisdiction in State courts because the Supreme Court said that they have sovereign immunity there, also. So State remedies are out of the picture, as well as damages.

Mr. SMITH. Very good. Thank you.

Mr. Berman is recognized for his questions.

Mr. BERMAN. Thank you, Mr. Chairman. And I would like to beat this horse a little longer, if I could.

This whole question of the sufficient record, I don't know if the Chairman mentioned, but there is a GAO study which has outlined 58 infringement cases between 1985 and 2001, where States were generally understood to have liability for IP infringements. One of the reasons, Ms. Winner, that you don't get to hear the other side is because the other side doesn't have to make its case. When the first thing they do is assert the defense of sovereign immunity, we never get to the description of and a discussion of whether or not the infringement took place.

But the GAO, looking at it from an objective and dispassionate point of view, found a number of cases where there has been what they understood as State infringements.

So, it is particularly funny to hear the universities talking about this being hypothetical rather than real, because the universities come to us on this Subcommittee and say, amend the Digital Millennium Copyright Act because we fear the potential for constraining fair use and other legitimate and appropriate research functions, not specific examples of things that have happened, but the hypothetical problem. And last week we had a hearing on a bill that the Chairman and I and Members of the Subcommittee are sponsoring supported by the universities, and particularly the public universities called the CREATE Act, which makes sure that collaborations don't end up—between different institutions don't end up causing a patent to be found to be, I guess, non-novel, really. And there, I specifically asked universities, could you illustrate

where this has become a problem? They said, it hasn't, but we think it will be if we don't correct this.

So even if there was not a sufficient record, the fundamental, I think, unfairness, which I am not sure I didn't take you as arguing with the certain unfairness of the situation. The University of North Carolina can do certain things with impunity—not that they do, but could, and Duke can't. That fundamental unfairness, I think, is reason enough. But we think that there is evidence of problems that have been referred to a number of times here. So, maybe that is not really a question, more a point. I just think we have the justification to act.

If you had anything to add to your notion of why we haven't met that requisite requirement, I would be interested in hearing it. But then I want to get to another point that you made in your testimony, Ms. Winner.

If reliance on injunctions and good faith provide sufficient protection to privately-held intellectual property, in other words, that which is left, the good faith of the States and the injunctive power of the courts even after those decisions, why isn't that good enough to protect State-owned intellectual property? Why is it fair? Well, that is the basic question. Those very same remedies would be available under this system for States that didn't want to waive to the holders of intellectual property in the university.

Ms. WINNER. Clearly, the ability to have injunctive relief is the same for both universities and States and for private holders of intellectual property. It provides some remedy, and it does not provide a complete remedy. We do not argue that there is a complete remedy available against the States. We only argue that as you try to get one, that you need to work with the States and the public universities and the private intellectual property owners to find a compromise that the States are likely to buy into, so that we do not get left with essentially worthless intellectual property.

Mr. BERMAN. Worthless because the States won't provide the waiver?

Ms. WINNER. Yes.

Mr. BERMAN. Well, then let us look at that for a second. You have spoken, we have all talked about the amount of revenues that flow as a result of both the creation of intellectual property and its transfer, and some of which flows right to the State's coffers and the university coffers. And my guess is, when the State budgets for the university, the State university, they are looking at sources of revenue that are coming in and it counts in terms of the operations of the university.

States have found no problem waiving their immunity from suit in order to secure financing through the issuance of bonds and other financial arrangements. They waive their immunity all the time to secure financing because they know the financial markets won't give them financing otherwise. It wasn't so hard then. It was in our interest to do it. Why isn't it in the State's interests? I think Professor Bender made reference of that. We are talking about a limited waiver of sovereign immunity in this bill. Maybe they would also like to waive their immunity on Disability Act cases, too, under the Fair Labor Standards Act. But we won't get into that. That is not the subject of this legislation. But here, why

aren't they incentivized to provide the waivers necessary to allow them to hold onto their own intellectual property and protect it against infringement?

Ms. WINNER. In my experience, when States do sometimes voluntarily waive sovereign immunity, they do it within clearly prescribed limits of liability that in some policy way they think are appropriate to the problem at hand. This is not a voluntary waiver. It would basically be a coerced waiver, and, therefore, it does infringe on the sense of sovereignty in a way that a voluntary waiver does not.

Mr. BERMAN. What is more coercive about this waiver, I mean, than the financial market saying, if you want to get this authority to raise funds, you had better waive sovereign immunity? I mean it is sort of—I mean that is.

Ms. WINNER. That is voluntary.

Mr. BERMAN. This is voluntary, too. No State has to provide the waiver.

Ms. WINNER. The difference is that they get to decide whether to waive it. They, the legislature. But we, the university, don't get to decide. We just are the object of their failure to do it if they don't do it. If we could decide to do it, we would waive it.

Mr. SMITH. Mr. Berman, would you yield for a minute?

Mr. BERMAN. Sure.

Mr. SMITH. My guess, Ms. Winner, is if the universities in a particular State all told the legislature what they wanted, that they would get what they wanted. I think you underestimate your influence.

Ms. WINNER. I think it is completely unpredictable.

Mr. SMITH. I agree State legislatures are unpredictable. But nevertheless, I think they are generally going to act in the best interests of their public institutions.

The gentleman from Wisconsin, Mr. Green, is recognized for his questions.

Mr. GREEN. Thank you, Mr. Chairman.

Ms. Winner, assume for the moment that we do, in fact, have the number of cases and problems that have been discussed here. You have indicated that your concern is that we tread carefully as we look to craft a remedy. I will turn it to you. What is the remedy? What is it that we should be doing in looking for remedies? If you don't support the remedies that are outlined in this legislation, what meaningful remedies are there that we should embrace that would work?

Ms. WINNER. I know that there were substantial efforts last year to reach a compromise, and that there were some ideas floated that had to do with Federal administrative remedies, that had to do with a more circumscribed kind of damages. I cannot offer to you a compromise that I can say the States and the community will agree to. But I do think that there is fruit there—

Mr. GREEN. I am not necessarily looking for a compromise that everybody agrees to. I am just looking for an alternative remedy that would work. As we take a look at this legislation, we need—if you don't support this, there has to be some meaningful alternative that is out there that we should be considering. And I guess I haven't heard that yet from you, what we should do.

Ms. WINNER. I think that both Federal administrative remedies and a more circumscribed set of damages would be fruitful avenues to explore.

Mr. GREEN. Those are awfully ambiguous terms that you are throwing out. What do you mean by administrative remedies?

Ms. WINNER. Well, the idea has been put forward of having a Federal agency that prosecutes the infringements by States, that is a Federal, could be administrative remedy. I think that the treble damages, part of the patents damages, is very offensive to States in terms of waiving sovereign immunity. So those would be two different kinds of concrete directions.

Mr. GREEN. Well, let me take that and toss it out to the other panel members as to why that would or would not be effective.

Ms. Peters.

Ms. PETERS. The likelihood of having a new Federal agency created and funded to basically exist to prosecute infringements by States seems not something that Congress would jump to create and fund.

The Copyright Office has looked at all kinds of ways in which to address the issue, and actually we frankly were in favor of abrogation as the simplest way to go but ended up supporting waiver. And, at the end of the day, I know that we were involved in the negotiations and things that I had heard were, maybe it is possible, but the parties did not agree to look at waiver on a sector-by-sector basis, so that educational institutions, they could waive for educational institutions as opposed to infringements by all State entities.

I happen to like the bill as it is now and support it as it is now. And we have been looking at this issue since 1988, And I don't see a better solution.

Mr. GREEN. Mr. Bohannon?

Mr. BOHANNON. The only thing I could add to Ms. Peters's analysis of the proposal is that I think we already have a situation where we can assess whether that kind of administrative approach would be viable. Quite frankly, despite their best efforts and close working relationship with existing enforcement authorities with the Department of Justice, we are an overwhelmed agency. I think we need to be careful about assuming that the only way we can solve antipiracy is by going to court.

We don't make that assumption. I mean, we prefer to sit down and work things out in the context of working constructively through the audit process, working in a constructive way toward assessing about what the actual and other damages are. I think that it would actually, in fact, be counterproductive to antipiracy efforts. If we were to say, we only go after State entities who infringe through this agency, that is inevitably going to be underfunded, overtaxed and have way too many missions relative to the size of its budget.

Mr. BENDER. I agree with what the other people have said about the unreality of the Federal agency and Congress wanting to fund it or, if you can, give it to an existing agency, I would think they would have higher priorities. Limit on damages, the current bill has in it a limit on damages in the abrogation section. I have not been a party to the negotiations, was not last time, but I would

imagine that it would be something that might be negotiated or talked about, some limit on damages.

Although another alternative is to wait and see. Remember you are talking about compensatory damages. It is unlikely you are going to get enormous pain-and-suffering-type damages, which the States have been worried about in some areas. You could wait and see. And if there were some enormous judgments, then think about putting in a limit. But it is also something that you might talk about at this time.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. SMITH. Thank you, Mr. Green.

Before recognizing the next Member of the Subcommittee, we had been requested to make a part of the record a statement by Senator Patrick Leahy, who introduced S. 1191, which is identical H.R. 2344. And without objection, we will make Senator Leahy's statement a part of the record.

[The prepared statement of Mr. Leahy follows in the Appendix]

Mr. SMITH. The gentlewoman from Wisconsin, Ms. Baldwin, is recognized for her questions.

Ms. BALDWIN. Thank you, Mr. Chairman. I want to appreciate the testimony of the witnesses today, and I do believe that this is a very important matter affecting technological innovation and transfer.

In seeking a remedy to establish a proper balance of rights between and among IP holders, I tend to want to proceed carefully, also. And I am concerned with some of the issues that have been raised about the potential negative impact of this proposal on our public universities. Part of my concern originates from representing a very large public research institution in my district. Several prominent public universities utilize foundations to administer the intellectual property portfolios of their faculty and their researchers. One of the most prominent and well known in my district is the Wisconsin Alumni Research Foundation, known as WARF. And it was created back in 1925. The Bayh-Dole Act specifically authorizes these foundations. Under current law, they are not shielded by 11th amendment, sovereign immunity. And so my question, first of Ms. Winner and then of the other witnesses, is would H.R. 2344, as drafted, extend to these foundations even though they do not have the ability to invoke sovereign immunity? Secondly, why extend it to them, if so? And lastly, if there is concern about States using these sort of foundations to do an end run around this type of legislation, would it be possible to establish some criteria to figure out if, in fact, an end run had occurred? I mean, that is sort of—but the main focus is, you know, would this extend to these foundations?

Ms. WINNER. My reading of the bill is that it would prohibit the State, or any owner of a license that had ever been owned by the State, from having a remedy. So if the State owned the patent and transferred it to the foundation and then the foundation then licensed it to somebody else, neither the university nor the foundation, nor the licensee could have a remedy if the State hadn't waived sovereign immunity. And in that way, either the legislation is very carefully crafted and complete or is—or having a foundation doesn't solve the problem for the university.

Ms. BALDWIN. Thank you. Ms. Peters.

Ms. PETERS. I agree with what Ms. Winner said, if, in fact, it has ever been owned by the university, it has severe problems. I really hadn't thought very much about—this always comes up in the area of patents and not really in the area of copyrights. The issue with copyrights seems to be more, you know, the university presses and the amount of money that they seem to get seems to be more on the negative side than the positive side. So I don't really have an answer for you, sorry.

Ms. BALDWIN. Mr. Bohannon or—

Mr. BOHANNON. I am going to defer to my colleague Professor Bender for a second. Congresswoman, I think you have identified the reason why there is concern which is, as you said, the last thing we want is to have gone through all the effort of getting a framework in which waiver can occur that gets constitutional scrutiny at the Supreme Court, but we don't want to have loopholes here that undermine this whole thing. We then would be coming back to Congress to say you have got to fix the problem. So we appreciate your recognition that the goal would be to avoid end run situations.

I am familiar with WARF. I have never dealt with them personally, but I would like to learn more about their situation. But it is hard for me to see a solution that is immediately available that, unless it takes the approach of the current bill, would adequately address the underlying problem, but I am open to thoughts, but we clearly have to make sure the end run does not occur. Otherwise, if the Congress and the Senate passes this, we don't want to have to come back to try to fix the problem.

Mr. BENDER. I think the provision in the present bill which says that if the property was ever owned by the State or any State instrumentality, the remedy is meant to avoid end runs.

I think you raised a really interesting question that I haven't thought of before about the situation of a State agency which currently does not have sovereign immunity. And WARF, I take it, is an agency that has not claimed sovereign immunity. I would think—there may be a need for clarification, and I would like to think about this and send you a more detailed and thoughtful answer. It says that if a State or State instrumentality is or was at any time the legal beneficial owner, then you have to have waived immunity. I would imagine that the word instrumentality meant to refer to instrumentalities that have sovereign immunity. And if that clarification were put in, then people who own property that WARF once owned would not be barred from getting damages because of the failure to waive, because the instrumentality that had it did not have sovereign immunity. That is a question that is worth thinking about, and I would like to respond in more detail later, if that is okay.

Mr. SMITH. Thank you, Ms. Baldwin.

The gentleman from California, Mr. Berman, has a final question.

Mr. BERMAN. Two quick comments and a final question to Professor Bender. One is, Ms. Winner, I understand intellectually the notion of in effect the university now will be—potentially lose their ability to seek damages, but will not have within their control the

waiver. But I wonder if that isn't more of a theoretical problem than a real problem, because it is hard for me to imagine what little I know about North Carolina, I think California, Wisconsin, when you get the private intellectual property holders, the technology industries, the universities, the public universities, the creators of copyrights, all the companies that want to protect trademarks against their being misappropriated, together, urging this limited waiver against the theoretical possibility that the State might have to be accountable for their infringing conduct, I don't think this will be as difficult a real problem to worry about, the hypothetical possibility that the waiver won't come.

The second point is—well—skip the second part. The question, it is related to that. The Constitution doesn't talk about sovereign immunity. For decades and decades, no one thought that States, when they infringed, were immune from liability, as I understand it. This all occurred in the 1980's. Congress acted to then provide the abrogation. People thought it was fixed then. It turned out not to be. This is a recent problem that has come from a series of 5-4 decisions construing an 11th amendment which says, by its own words, the judicial power of the United States shall not be construed to extend to any suit in law or equity commenced or pressed against one of the United States by citizens of another State. Doesn't talk, doesn't even speak, to the issue of citizens of that State being able to sue or of the United States being able to sue.

So, I mean, this isn't something that is beat deeply, you know, in our framers of our Constitution in the context of sovereign immunity. This has been a 5-4 decision construed to deal with diversity and maybe even substantive subject matter jurisdiction in very recent years. So I guess—I mean some might even say, except for the fact that the five justices who were on that side would never do that, that this was an example of judicial activism. And I am just curious, Professor Bender, if you could elaborate more in terms of this hallowed doctrine of sovereign immunity applied in this situation and your thoughts?

Mr. BENDER. Well, I think you are absolutely right that the current situation, with regard to sovereign immunity, is a new situation announced by the Supreme Court in 1999. Remember, they—the Union Gas Case held that Congress could abrogate the State's immunity in the service of its Article I powers. And that always seemed to me to be a sensible interpretation, especially since I don't like the 11th and the Court doesn't rely on the 11th amendment, as such, because the language of the 11th amendment, as you point out, just applies to suits by people out of State. And the 11th amendment was addressed to the diversity jurisdiction. I meant to say that the diversity jurisdiction doesn't apply. The Court has said this that there is an underlying principle of sovereign immunity that came into the Constitution with the States at the time of the convention. When you read the Constitution, you would think that the supremacy clause modified that doctrine, and that is what the Court held in Union Gas, a valid Federal law passed under a valid Federal power can override the State's immunity.

So the notion that it can't is a new one and that is what is causing us to deal with. If you think that suits based on valid Federal

legislation is something that has historically been part of the State's armory of defenses, it hasn't.

Mr. BERMAN. If we flipped the notion of Keytam on its head, and said the United States Government, on behalf of people whose copyrights, patents and trademarks have been infringed, can now bring a lawsuit for compensatory damages, would that kind—could the Court challenge that kind of statute.

Mr. BENDER. Under current law, that would be completely constitutional because the sovereign immunity doctrine does not protect the States, it has been said, against suits by the Federal Government. In some ways, that seems to me to be strange because the States would feel more threatened, one would think, by the Federal Government suing them than by private individuals, but that is the state of the law. And so yeah, that could be done, as we said before. That really seems to be impracticable to try to create a new Federal agency to do that or to assign that task to one of the existing agencies. But that would not—sovereign immunity principle only applies to private suits for damages. And it is also important to remember that even though the Court has held, say in the Fair Labor Standards Act case, that the States are immune from private suits for damages, the law applies to the States. The States are bound by the Fair Labor Standards Act. The States are bound by copyright law. When a State infringes on a copyright, it is violating Federal law, and State officials can be sued for an injunction for example. So the sovereign immunity is just a remedies thing. And what I like about this legislation, it addresses itself to the remedies.

Mr. BERMAN. And you are a professor from Arizona State University?

Mr. BENDER. Right. We violate no copyrights.

Mr. SMITH. Thank you. I thank the Members who came today and appreciate their interest. And we had excellent testimony today and appreciate the witnesses being here as well. Thank you very, very much. And we stand adjourned.

[Whereupon, at 6:15 p.m., the Subcommittee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD



Representing the Trademark Community since 1878

June 13, 2003

The Honorable Lamar Smith, Chairman
 Subcommittee on Courts, the Internet and Intellectual Property
 Committee on the Judiciary
 United States House of Representatives
 B-351-A Rayburn House Office Building
 Washington, D.C. 20515-4321

Re: H.R. 2344, the *Intellectual Property Restoration Act of 2003*

Dear Chairman Smith:

The International Trademark Association supports your efforts in connection with H.R. 2344, the *Intellectual Property Protection Restoration Act of 2003*. This bill would restore federal remedies for violations of intellectual property rights by states. INTA, the world's largest organization dedicated exclusively to the protection of trademarks and to their preservation as valuable tools for consumer protection, respectfully requests that this letter be made part of the record for the June 17, 2003, hearing on federal remedies for state violations of intellectual property.

The matter of state abrogation of sovereign immunity has been of substantial concern to owners of private intellectual property rights in light of recent Supreme Court opinions on the Eleventh Amendment to the U.S. Constitution and federalism, which determined that state defendants in IP actions might rely on sovereign immunity as a defense to an alleged violation of a private party's intellectual property rights.¹ State governments should not be able to have it both ways: to engage in commercial enterprises in competition with private industry, protected by the Lanham Act and able to sue competitors for violations of the states' trademark rights, but then enjoy immunity for any of their own acts that are contrary to the fair and equitable standards of American intellectual property law. Congress should enact legislation that would as a matter of fairness and in the interest of consumer protection hold states and state entities to the same principles of law as the private sector. This

¹ *Florida Prepaid Postsecondary Ed. Expense Bd. v. College Savings Bank*, 527 U.S. 627 (1999); *College Savings Bank v. Florida Prepaid Postsecondary Ed. Expense Bd.*, 527 U.S. 666 (1999).

legislation should, as H.R. 2344 does, also place trademarks as coequal partners with patents and copyrights in the waiver arrangement set forth in the bill, since like patents and copyrights, trademarks are a form of property that falls within the scope of the Fourteenth Amendment.

Mr. Chairman, INTA gratefully acknowledges the efforts of this subcommittee to develop legislation that would create a level playing field between private entities and states that own intellectual property. America's trademark owners stand ready to work with the Congress towards the passage of a fair and effective measure that addresses this issue. On behalf of INTA, I thank you in advance for admitting our letter into the record.

Sincerely,



Kathryn Barrett Park
President

PREPARED STATEMENT OF THE HONORABLE SPENCER BACHUS, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF ALABAMA

Mr. Chairman, I commend you for your leadership on the very technical subject of intellectual property and sovereign immunity, and I appreciate the intentions shared by you and Mr. Berman in introducing H.R. 2344, the "Intellectual Property Protection Restoration Act of 2003." If state entities are indeed infringing upon the rights of intellectual property holders willfully and with impunity, we must seek to remedy that injustice.

However, I would like to express my concern with the approach outlined in H.R. 2344 to establish such a remedy. Although the legislation purports to level-the-playing field for all holders—both private and state actors—of intellectual property rights, H.R. 2344, if enacted, may have serious adverse effects on the State of Alabama and the 6th District.

H.R. 2344 would require state entities either to forego intellectual property protection or waive their constitutional right to sovereign immunity in intellectual property cases. However, the constitution in the State of Alabama prohibits the legislature from waiving its sovereign immunity. Article I, Section 14 of the Alabama constitution prohibits our State from being "a defendant in any court of law or equity." Under H.R. 2344, therefore, all state entities would lose their ability to obtain federal judicial remedies to protect their intellectual property rights unless the state amended its constitution. In Alabama, a constitutional amendment requires a three-fifths majority vote of both chambers of the legislature, as well as a vote of the people.

As drafted, H.R. 2344 is likely to disproportionately affect the State of Alabama and the 6th District. As of 2001, the University of Alabama at Birmingham Research Foundation, located in my district, received more than \$15 million dollars from license agreements and more than \$16 million dollars from research agreements. If H.R. 2344 became law, this source of state income could be lost and the attendant innovation and economic growth would be relocated from the 6th District to some other state able to waive its immunity. Other public research universities in Alabama, including Auburn University, the University of Alabama, the University of Alabama in Huntsville, and the University of South Alabama would be similarly affected.

Mr. Chairman, this is an important issue for my State with broad legal and economic implications. I hope that we can work together to find a solution to the problem that you are attempting to address that does not leave Alabama in the untenable situation proposed by H.R. 2344.

PREPARED STATEMENT OF R. BRUCE JOSTEN, EXECUTIVE VICE PRESIDENT, U.S.
CHAMBER OF COMMERCE

Thank you Mr. Chairman, Ranking Member Berman, and members of the Subcommittee, for this opportunity to provide comments on this very important issue. My name is Bruce Josten and I am Executive Vice President for Government Affairs at the U.S. Chamber of Commerce. The U.S. Chamber represents more than 3 million businesses and organizations of every size, sector, and region.

Our members are deeply concerned about the ability of states and state entities, such as state universities, to use their constitutional protection from lawsuits to freely infringe upon the copyright, patent, and trademark rights of others, while at the same time taking full advantage of copyright, patent, and trademark protection for their own intellectual property. This bill would not permit the states to have it both ways: if they want copyright, patent, and trademark protection, they must expressly waive their sovereign immunity.

BACKGROUND

For over ten years, Congress has been attempting to remedy a series of unfortunate Supreme Court decisions that began in 1962. Under these decisions, the principle of sovereign immunity, in the context of intellectual property, has come to mean that the owners of patents, trademarks, and copyrights cannot sue states even when the state infringes those intellectual property rights. This is an abuse of the states' constitutional protection from suit.

It had been widely thought that when a state engages in an activity that can properly be regulated by Congress, it impliedly consented to suit in Federal court.¹ This principle has been eroded over the years and today states can use their con-

¹Parden v. Terminal Railway of Alabama, 377 U.S. 184 (1964).

stitutional sovereign immunity protection, even for non-governmental activities, such as unfairly competing with patent owners and infringing their patents.

The U.S. Chamber and its members are deeply concerned about this situation. The system of patent, trademark, and copyright protection in the United States encourages investment in invention and innovation. Such protection assures innovative companies and individuals that they will stand to reap the financial rewards if their new product or service finds favor in the marketplace. However, when a substantial group of parties, such as states and state agencies, can disregard these protections, the intellectual property protections are eroded.

The prospect of state infringement of intellectual property rights will have an adverse effect on the level of investment in research and development of new products and services. Companies will be reluctant to invest the necessary funds in the development of new products when they know that a state or state agency can appropriate that product or service for their own use, without licensing the technology or paying royalties. As states increasingly face budget shortfalls, the likelihood of their forays into patented or copyrighted commercial ventures increases.

States have not shied away from taking advantage of their unfair status in the marketplace. According to testimony by Marybeth Peters, Register of Copyrights, in a July 2000 hearing before this Subcommittee, then called the Subcommittee on Courts and Intellectual Property, four-year state colleges and universities have registered over 32,000 monographs since 1978 and this does not include scholarly journals, magazines, newsletters, and computer programs.

Similarly, the U.S. General Accounting Office reported in 2001 that state institutions of higher learning hold nearly 12,000 patents and 2,700 trademarks in addition to the 32,000 copyrights.

State universities often obtain their patents with federal funding. They protect and license these patents the same as would any other patent holder. The U.S. Chamber and its members believe that the states cannot continue to have it both ways. If they participate in the commercial marketplace, they must abide by the rules that apply to everyone.

We recognize that some states, as a matter of policy, seek licenses and attempt to avoid infringement. However, so long as the threat of infringement remains real and not theoretical, the chilling effect will continue.

THE PENDING LEGISLATION

H.R. 2344 does not attempt to abrogate state sovereign immunity. Rather, it requires states to expressly waive their immunity if they want to be able to sue to protect their own patents, trademarks and copyrights. Furthermore, the legislation creates liability on the part of the states and state agencies if they violate intellectual property owners' due process rights or unlawful takings rights under the Constitution. Relief under this section of the legislation would include actual damages, profits, statutory damages, and fees, but would not include treble damages.

This approach is rational and reasonable. It narrowly tailors the solution to the problem while avoiding the constitutional shortcomings that have undermined past efforts at legislation. Rather than broadly abrogating the states' sovereign immunity protection, it gives the states an incentive to expressly waive their sovereign immunity. The case of *Alden v. Maine*, 119 S. Ct. 2240 (1999), established that states may waive their immunity and that Congress may provide incentives for such waivers. This legislation offers an incentive - the right to sue to protect intellectual property owned by the states - in exchange for the waiver of immunity when the state or state agencies are charged with infringement. It is a fair and equitable solution.

The final provision of this legislation provides remedies against officers or employees of a state or state agency for unlawful infringement, including monetary damages, declaratory and injunctive relief, costs, attorneys' fees, and destruction of infringing articles. Codification of this remedy, first defined by the Supreme Court in *Ex parte Young*², is a necessary legislative step, as the recent resurrection of state sovereign immunity may be used to erode these protections.

The U.S. Chamber of Commerce enthusiastically supports this legislation and urges the Subcommittee to favorably report H.R. 2344.

PREPARED STATEMENT OF THE HONORABLE PATRICK LEAHY, A U.S. SENATOR FROM THE STATE OF VERMONT, AND RANKING MEMBER, SENATE JUDICIARY COMMITTEE

In June 1999, the United States Supreme Court issued a pair of decisions that altered the legal landscape with respect to intellectual property. I am referring to

²209 U.S. 123 (1908).

Florida Prepaid v. College Savings Bank and its companion case, *College Savings Bank v. Florida Prepaid*. The Court ruled in these cases that States and their institutions cannot be held liable for damages for patent infringement and other violations of the federal intellectual property laws, even though they can and do enjoy the full protection of those laws for themselves.

Both *Florida Prepaid* and *College Savings Bank* were decided by the same five-to-four majority of the justices. This slim majority of the Court threw out three federal statutes that Congress passed, unanimously, in the early 1990s, to reaffirm that the federal patent, copyright, and trademark laws apply to everyone, including the States.

I believe that there is an urgent need for Congress to respond to the *Florida Prepaid* decisions, for two reasons.

First, the decisions opened up a huge loophole in our federal intellectual property laws. If we truly believe in fairness, we cannot tolerate a situation in which some participants in the intellectual property system get legal protection but need not adhere to the law themselves. If we truly believe in the free market, we cannot tolerate a situation where one class of market participants have to play by the rules and others do not. As Senator Specter said in August 1999, in a floor statement that was highly critical of the *Florida Prepaid* decisions, they “leave us with an absurd and untenable state of affairs,” where “States will enjoy an enormous advantage over their private sector competitors.”

The second reason why Congress should respond to the *Florida Prepaid* decisions is that they raise broader concerns about the roles of Congress and the Court. Over the past decade, in a series of five-to-four decisions that might be called examples of “judicial activism,” the current Supreme Court majority has overturned federal legislation with a frequency unprecedented in American constitutional history. In doing so, the Court has more often than not relied on notions of State sovereign immunity that have little if anything to do with the text of the Constitution.

Some of us have liked some of the results; others have liked others; but that is not the point. This activist Court has been whittling away at the legitimate constitutional authority of the federal government. At the risk of sounding alarmist, this is the fact of the matter: We are faced with a choice. We can respond—in a careful and measured way—by reinstating our democratic policy choices in legislation that is crafted to meet the Court’s stated objections. Or we can run away, abdicate our democratic policy-making duties to the unelected Court, and go down in history as the incredible shrinking Congress.

About four months after the *Florida Prepaid* decisions issued, I introduced a bill that responded to those decisions. The Intellectual Property Protection Restoration Act of 1999 was designed to restore federal remedies for violations of intellectual property rights by states. I have continued to refine this legislation over the years, and in February 2002, as Chairman of the Judiciary Committee, I held the Senate’s first hearing on the issue of sovereign immunity and the protection of intellectual property.

Earlier this month, I introduced the Intellectual Property Protection Restoration Act of 2003, S. 1191, which builds on my earlier proposals and on the helpful comments I have received on those proposals from legal experts across the country. I am proud to have the House leaders on intellectual property issues, Representatives Smith and Berman, as the principal sponsors of the House companion bill, and I want to commend them for holding this hearing today.

Our bill has the same common-sense goal as the three statutes that the Supreme Court’s decisions invalidated: To protect intellectual property rights fully and fairly. But the legislation has been re-engineered, after extensive consultation with constitutional and intellectual property experts, to ensure full compliance with the Court’s new jurisprudential requirements. As a result, the bill has earned the strong support of the U.S. Copyright Office and the endorsements of a broad range of organizations including the American Bar Association, the American Intellectual Property Law Association, the Business Software Alliance, the Intellectual Property Owners Association, the International Trademark Association, the Motion Picture Association of America, the Professional Photographers of America Association, and the Chamber of Commerce.

In essence, our bill presents States with a choice. It creates reasonable incentives for States to waive their immunity in intellectual property cases, but it does not oblige them to do so. States that choose not to waive their immunity within two years after enactment of the bill would continue to enjoy many of the benefits of the federal intellectual property system; however, like private parties that sue States for infringement, States that sue private parties for infringement could not recover any money damages unless they had waived their immunity from liability in intellectual property cases.

I believe this arrangement is constitutionally sound. Congress may attach conditions to a State's receipt of federal intellectual property protection under its Article I intellectual property power just as Congress may attach conditions on a State's receipt of federal funds under its Article I spending power. Either way, the power to attach conditions to the federal benefit is part of the greater power to deny the benefit altogether. And no condition could be more reasonable or proportionate than the condition that in order to obtain full protection for your federal intellectual property rights, you must respect those of others.

I am encouraged by the Supreme Court's recent decision in *Nevada Department of Human Resources v. Hibbs*, which, although very narrow, suggests that certain Justices may be starting to realize that the Court has gone too far in sacrificing ordinary people's rights at the altar of sovereign immunity. By upholding the Family and Medical Leave Act as applied to the States, the Hibbs case also suggests that a very carefully crafted law, which simply does what is necessary to protect important rights, will be upheld.

I hope we can all agree on the need to protect the rights of intellectual property owners. A recent GAO study confirmed that, as the law now stands, owners of intellectual property have few or no alternatives or remedies available against State infringers—just a series of dead ends.

We need to assure American inventors and investors, and our foreign trading partners, that as State involvement in intellectual property becomes ever greater in the new information economy, U.S. intellectual property rights are backed by legal remedies. I want to emphasize the international ramifications here. American trading interests have been well served by our strong and consistent advocacy of effective intellectual property protections in treaty negotiations and other international fora. Those efforts could be jeopardized by the loophole in U.S. intellectual property enforcement that the Supreme Court has created.

The Intellectual Property Protection Restoration Act restores protection for violations of intellectual property rights that may, under current law, go unremedied. We unanimously passed more sweeping legislation in the early 1990s, but were thwarted by the Supreme Court's shifting jurisprudence. We should enact this legislation without further delay.



STATE OF MARYLAND

DHMH

Maryland Department of Health and Mental Hygiene
Mental Hygiene Administration
Spring Grove Hospital Center • Dix Building
55 Wade Avenue • Catonsville, Maryland 21228

Oscar Morgan, Director

Parris N. Glendening, Governor - Kathleen Kennedy Townsend, Lt. Governor - Georges C. Benjamin, M.D., Secretary

February 19, 2002

William Stevens
McBride, Baker & Coles
500 West Madison Street
40th Floor
Chicago, IL 80681

Re: Spring Grove Hospital

Dear Mr. Stevens:

I have discussed your settlement agreement with Spring Grove Hospital Center and with the Maryland Office of the Attorney General. As I have previously explained to you, Spring Grove Hospital Center is a state operated hospital, and its employees are state employees. The Office of the Attorney General is counsel to Spring Grove Hospital Center.

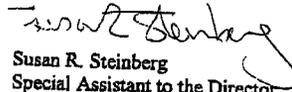
Under Maryland law and federal law, the State and its employees may not be sued unless sovereign immunity is waived. The State of Maryland has not chosen to waive its immunity. The courts have repeatedly held that Congress did not abrogate state sovereignty in enacting the various copyright statutes. See: Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank, 527 U.S. 627, 636 (1999), Rodriguez v. Texas Commission on the Arts, 199 F.3d 279 (5th Cir. 2000). On advice of the Office of the Attorney General, Spring Grove Hospital Center and the State will not waive its right to sovereign immunity in the instant case. Thus, the State will not offer payment for any alleged violation of the copyright statutes.

Although, the State does not waive its right to sovereign immunity, the State recognizes the importance of complying with copyright statutes. Spring Grove Hospital Center has taken the appropriate steps to remove software for which it could not locate a current license, or has obtained the necessary licenses. Spring Grove Hospital Center has worked with [REDACTED] representatives regarding licensure requirements for its [REDACTED] program. The Hospital has reiterated its policy regarding software and the use of computers with all staff, and all employees are required to sign a statement that they have been informed of the policy. All computers in storage and awaiting disposal have had all programming deleted and MHA is maintaining a record of all purged computers. Finally, the hospital has implemented a policy to review computer usage. The Mental Hygiene Administration will be monitoring the situation.

Toll Free 1-877-4MD-DHMH • TTY for Disabled • Maryland Relay Service 1-800-735-2258
Web Site: www.dhmh.state.md.us

The State is willing to enter into an agreement stating its continued support of monitoring of computers and compliance with copyright law.

Sincerely,


Susan R. Steinberg
Special Assistant to the Director

Cc: William Landis, CEO
Barbara Hull Francis
Assistant Attorney General

ATTORNEY GENERAL
STATE OF NEW HAMPSHIRE
33 CAPITOL STREET
CONCORD, NEW HAMPSHIRE 03301-6897

PHILIP T. McLAUGHLIN
ATTORNEY GENERAL



STEVEN M. HOURAN
DEPUTY ATTORNEY GENERAL

August 13, 1998



Software Publishers Association
1-800-388-7478
http://www.spa.org

FAX (312) 993-9350

Richard R. Winter, Esquire
McBride, Baker & Coles
500 West Madison Street, 40th Floor
Chicago, Illinois 60661-2511

Dear Mr. Winter:

In response to your facsimile demand of August 10, 1998, please be advised that, as we are an educational institution, the Technical College staff necessary to respond to your correspondence received in June have been off for the summer. We have therefore been unable to gather more specific information. However we are informed and believe that the authorized dealer from whom we purchased the [redacted] licenses was aware of the intended use based on the number of students, not the number of machines, and approved such use under the number of licenses purchased. As previously stated, it is our position that our use of the [redacted] software has been at all times consistent with the licenses purchased.

FILE

In response to your threat to file suit in federal court if we do not agree to pay damages of \$50,000, please be advised that the State is immune from suit for money damages for copyright violations in federal court under the Eleventh Amendment of the United States Constitution. See Univ. of Houston v. Chavez, 116 S.Ct. 1667, 134 L.Ed.2d 772 (1996), vacating finding allowing copyright suit against state in Chavez v. Arte Publico Press, 59 F.3d 539 (5th Cir. 1995) in view of Seminole Tribe of Florida v. Florida, 517 U.S. ____ 134 L.Ed.2d 252, 116 S.Ct. 1114 (1996). See also BV Engineering v. Univ. of Calif. at L.A., 858 F.2d 1394 (9th Cir. 1988) and Richard Anderson Photography v. Brown, 852 F.2d 114 (4th Cir. 1988).

Additionally, despite our belief that the use of the software in more than one classroom but only for one class with less students than the number of licenses purchased at a time, was within the permitted use of the licenses purchased, since notification that your association has a different interpretation of the permitted use under the license, the college has removed the

Richard R. Winter, Esquire
August 13, 1998
Page 2

software from all but the machines located in one classroom. Therefore, there is no basis for filing a complaint requesting injunctive relief as the request is moot.

If your client insists on filing suit to prevent some imagined future possible misuse of the software, the College will discontinue all courses offering training to students in the use of the [redacted] software and will remove this program from any machines. It has always been our intention to comply with the licenses purchased but we do not wish to be involved in senseless litigation and will not continue to offer training which is essentially free marketing for [redacted] if faced with litigation.

Finally, it is our position, based on the previously cited case law, that the filing of a suit for money damages or injunction after having been advised of the State's Eleventh Amendment immunity and discontinuance of any use that might even arguably be outside the purchased licenses would be frivolous and merit sanctions under FRCP 11.

Very truly yours,



Nancy J. Smith
Assistant Attorney General
Civil Bureau

cc: Glenn DuBois, Commissioner
Department of Regional Community Technical Colleges

Dr. Lucille Jordan, President
Regional Community Technical College, Nashua and Claremont

NJS/llk
90711_1.DOC



Christine O. Gregoire

ATTORNEY GENERAL OF WASHINGTON

900 Fourth Avenue #2000 • Seattle WA 98164-1012

March 26, 2003

Mr. Anthony V. Lupo, Esq.
Arent Fox Kinter Plotkin & Kahn, PLLC
1050 Connecticut Avenue, NW
Washington, DC 20036-5339

**RE: Software & Information Industry Association Demand for Audit
Shoreline Community College**

Dear Mr. Lupo:

Shoreline Community College has completed an audit of software used on its computers. The attached summary shows that there were 34 unauthorized, unlicensed programs on the College's computers. See attached summary. The College has removed those programs, and in some instances, purchased licensed versions.

The College is committed to respecting the intellectual property rights of others, as evidenced through its Acceptable Use Policy for computers and networking systems. The College has also taken steps, including education of its employees and monthly scans of the applications on College computers, to prevent its employees from installing unlicensed software on College computers. The College frequently "Ghost" writes the computers in student labs to ensure clean versions on those computers.

While your original demand letter indicated that the College should pay a specified amount into the SIIA Copyright Protection Fund in exchange for a release, the College is immune from suit for copyright violations under the Eleventh Amendment. See *Chavez v. Arte Publico Press*, 204 F.3d 601 (5th Cir. 2000). Shoreline Community College is an agency of the state of Washington. *Centralia College Education Association v. Board of Trustees District No. 12.*, 82 Wn.2d 128, 129, 508 P.2d 1357 (1973). The state of Washington has not waived its sovereign immunity under the Eleventh Amendment. *Yakima Indian Nation v. Wash. Dep't of Revenue*, 176 F.3d 1241, 1244-45 (9th Cir.1999), cert. denied, 528 U.S. 1116, 120 S. Ct. 935, 145 L. Ed.2d 813 (2000). For this reason, your request that the College pay for a release of claims does not appear to be warranted in this situation.

Please let me know whether you require anything further from the College to resolve the SIIA concerns.

Very truly yours,

Derek L. Edwards
Assistant Attorney General
Phone: (206) 389-2054



Christine O. Gregoire

ATTORNEY GENERAL OF WASHINGTON

900 Fourth Avenue #2000 • Seattle WA 98164-1012

February 28, 2003

William M. Stevens
Attorney at Law
131 South Dearborn
Chicago, Illinois 60603

Re: **South Seattle Community College**

Dear Mr. Stevens:

I represent the Seattle Community College District, including South Seattle Community College. Your letter to Dennis Colgan, dated February 12, 2003, has been referred to me for reply. In that letter, you demand payment of \$20,742.80 to settle claims for unlicensed SIIA-member software found on college computers.

The District does not believe that it is liable for this or any amount.

The forty pieces of software that remain in question fall into two categories. First were twenty-one inadvertent college failures to uninstall [redacted] when that program was being moved from one classroom to another. However, after that move, the uninstalled copies in the former classroom were *not* used again. Second were nineteen "rogue" installations by individuals, which were made without the knowledge or permission of the District, the college, or any college officer. The Seattle Community College District makes diligent efforts to try to assure that only licensed software is installed on its computers. However, it cannot absolutely prevent, nor assume liability for, isolated unauthorized installations by individuals. South Seattle Community College has removed all unauthorized software that it found in the recent audit, including [redacted] and has added software to try to prevent unauthorized installations on its computers in the future.

In any event, the college, as part of a state institution of higher education, is not subject to this claim, because the state has not waived its sovereign immunity. *Chavez v. Arte Publico Press*, 204 F.3d 601 (5th Cir. 2000); *Yakima Indian Nation v. Wash. Dep't of Revenue*, 176 F.3d 1241, 1244-45 (9th Cir.1999), *cert. denied*, 528 U.S. 1116, 120 S. Ct. 935, 145 L. Ed.2d 813 (2000). *Cf. Centralia College Education Association v. Board of Trustees District No. 12.*, 82 Wn.2d 128, 129, 508 P.2d 1357 (1973).

Sincerely,


James R. Tuttle
Senior Counsel
(206) 389-2051

cc: Dennis Colgan

ANDREW J. DHUEY
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456 BOYNTON AVENUE
BERKELEY, CALIFORNIA 94707

TELEPHONE: (510) 528-8200
FACSIMILE: (510) 528-8204

ajdhuey@pacbell.net

26 June 2003

The Honorable Howard L. Berman
2221 Rayburn HOB
Washington, DC 20515

Re: H.R. 2344, *Biomedical Patent Management Corp. v.*
California Department of Health Services

Dear Representative Berman:

I am an attorney for Biomedical Patent Management Corporation ("BPMC"), a San Diego-based patent holding company. Mark Bogart, Ph.D., is BPMC's president. BPMC holds U.S. Patent No. 4,874,693 ("the '693 Patent"), entitled "Method for assessing placental dysfunction". [To view this patent, please use the following link to the U.S. Patent & Trademark Office: <http://164.195.100.11/netahtml/srchnum.htm> and enter 4,874,693].

In a nutshell, the '693 Patent covers a groundbreaking advance in prenatal screening for fetal chromosomal abnormalities, especially Down Syndrome. Using the procedures described by the '693 Patent, obstetricians make informed recommendations to pregnant women on whether expensive, invasive procedures such as amniocentesis are warranted. Presently, a majority of the prenatal screens performed nationwide are licensed under the '693 Patent. Indeed, BPMC's licensees include several multi-billion dollar commercial laboratory corporations.

Each year, millions of women, the majority of those who become pregnant, receive prenatal screening services covered by the '693 Patent. For his invention, Dr. Bogart received the Inventor of the Year Award from the San Diego Patent Law Association in 1989 and the DuPont Specialty Diagnostics Award in 1991.

Presently all large, private sector laboratories that perform prenatal services covered by the '693 Patent are licensed. The only large infringer of the '693 Patent is the California Department of Health Services ("Cal. DHS"). Through state legislation, California has mandated that only its Department of Health Services, Genetic Disease Branch, shall be responsible for the prenatal screening covered by the '693 Patent. The private sector is excluded from Cal. DHS's prenatal screening program, except for certain services Cal. DHS contracts out to bidders.

The Honorable Howard L. Berman
26 June 2003
Page 2

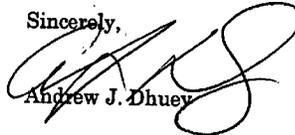
In 1997, BPMC offered to license Cal. DHS under the same standard licensing terms accepted by all of the large, private clinical laboratory companies. Cal. DHS refused. In response, BPMC sued Cal. DHS for infringement of the '693 Patent. *Biomedical Patent Management Corp. v. California Department of Health Services*, No. 98-CV-0897-K (JFS) (S.D. Cal. filed May 12, 1998). As its first affirmative defense, Cal. DHS asserted that the U.S. District Court "does not have jurisdiction under the Eleventh Amendment of the United States Constitution." *Id.*, Cal. DHS Answer, filed June 5, 1998. Alas, when it became clear that Cal. DHS would prevail on its claim of sovereign immunity, BPMC voluntarily dismissed the case. *Id.*, see Order Granting Plaintiff's Motion for a Voluntary Dismissal Without Prejudice, filed Nov. 20, 1998.

The *Florida Prepaid* decision of the Supreme Court [*Florida Prepaid Postsecondary Ed. Expense Bd. v. College Savings Bank*, 527 U.S. 627 (1999)] leaves BPMC with little hope of enforcing the '693 Patent against Cal. DHS. Although the majority in *Florida Prepaid* considered the possibility that patent holders could seek redress against the states in state court actions, *Id.* at 640-45, such an action would be a procedural nightmare for any patent holder – assuming that it is not flatly *prohibited* by 28 U.S.C. §1338(a) (federal courts have exclusive jurisdiction over patent infringement actions). The dissenters in *Florida Prepaid* outlined the many reasons why state court patent infringement actions are not realistic (*e.g.*, questions of impartiality, lack of single appellate court for patent law uniformity, patent law inexperience of state court judges). *Id.* at 659 (Stevens, J., dissenting).

H.R. 2344 would return Cal. DHS to the same level playing field as the commercial laboratories that honor the '693 Patent. Without such a legislative remedy, Cal. DHS will continue to ignore the '693 Patent, and every other patent covering medical innovations. BPMC hopes that your Subcommittee will do its part to remedy this inequitable situation.

Thank you very much for your time. Please call me at your convenience if there is any additional information or assistance I can provide you. My client and I wish you the best of luck in obtaining passage of H.R. 2344.

Sincerely,



Andrew J. Dhuey