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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CONTENTS

JUNE 17, 2003

OPENING STATEMENT

Page

The Honorable Lamar Smith, a Representative in Congress From the State of Texas, and Chairman, Subcommittee on Courts, the Internet, and Intellectual Property 1

The Honorable Howard L. Berman, a Representative in Congress From the State of California, and Ranking Member, Subcommittee on Courts, the Internet, and Intellectual Property 2

WITNESSES

The Honorable Marybeth Peters, Register of Copyrights, Copyright Office of the United States Library of Congress

Oral Testimony 5

Prepared Statement 7

Ms. Leslie Winner, General Counsel and Vice President, University of North Carolina

Oral Testimony 13

Prepared Statement 15

Mr. Mark Bohannon, General Counsel and Senior Vice President for Public Policy on behalf of Sortware and Information Industry Association

Oral Testimony 19

Prepared Statement 21

Mr. Paul Bender, Professor of Law, Arizona State University Law School, and Counsel to Meyer & Klipper, PLLC, on behalf of the Property Owners Remedy Alliance

Oral Testimony 24

Prepared Statement 26

LETTERS, STATEMENTS, ETC. SUBMITTED FOR THE RECORD

Statement of the Honorable Howard Berman, a Representative in Congress From the State of California 3

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

Letter to Chairman Lamar Smith from Kathryn Barrett Park, President, The International Trademark Association 54

Statement of the Honorable Spencer Bachus, a Representative in Congress From the State of Alabama 56

Statement of R. Bruce Josten, Executive Vice President, U.S. Chamber of Commerce 56

Statement of the Honorable Patrick Leahy 570

Letters submitted by Mr. Mark Bohannon, General Counsel and Senior Vice President for Public Policy on behalf of Sortware and Information Industry Association 60

Letter to the Honorable Howard Berman from Andrew J. Dhuey, Attorney At Law 66

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]

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[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

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[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 relief[32] 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.

compact[37] 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 facia 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.

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[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 Prepaid*, 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 SORTWARE 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

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[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 take[4] - 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-charted 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

[7] As 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.

[1] PORA'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. It'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. 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.

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[2] We 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.

[3] 527 U.S. 627 (1999).

[4] 527 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).

[6] In 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. . . .").

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-

[1] Parden 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

[2] 209 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
Parris N. Glendening, Governor – Kathleen Kennedy Townsend, Lt. Governor – Georges C. Benjamin, M.D., Secretary
Oscar Morgan, Director

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.

The State is willing to enter into an agreement stating it 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 03301-6397

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:

FILE

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.

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

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,

JR Tuttle

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

cc: Dennis Colgan

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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.

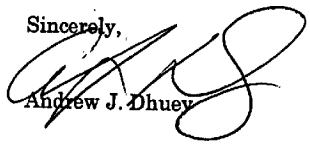
In 1997, BPMC offered to license Cal. DHS under the same standard licensing terms accepted by all of the large, private clinical laboratory companies. Cal. DHS refused. In response, BPMC sued Cal. DHS for infringement of the '693 Patent. *Biomedical Patent Management Corp. v. California Department of 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

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