

ALTERING THE CONTOURS OF COPYRIGHT— THE DMCA AND THE UNANSWERED QUESTIONS OF *PARAMOUNT PICTURES CORP. V. 321 STUDIOS*

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I. INTRODUCTION

In *Eldred v. Ashcroft* (“*Eldred*”)¹ the United States Supreme Court, upholding the constitutionality of the Copyright Term Extension Act (“CTEA”),² stated that “copyright law contains built-in First Amendment accommodations” in the form of the idea/expression dichotomy and the fair use defense.³ When faced with a legislative restriction that arguably chills the exercise of free speech, the *Eldred* Court said these safeguards render further First Amendment scrutiny unnecessary *unless* Congress seeks to alter the traditional contours of copyright protection.⁴ In *Paramount Pictures Corp. v. 321 Studios*,⁵ the Second Circuit rejected, without comment,

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1. 537 U.S. 186 (2003).

2. 17 U.S.C. §§ 301–304 (2000). The CTEA, enacted in 1998, added twenty years to the copyright term. In *Eldred* a group of educators, publishers, and artists brought suit challenging the constitutionality of the law, alleging *inter alia*, that it violated the “limited times” prescription of the Copyright Clause (“Congress shall have Power . . . [t]o promote the Progress of Science . . . by securing [to Authors] for limited Times . . . the exclusive Right to their . . . Writings . . .” U.S. CONST. art. I, § 8, cl. 8). The United States Court of Appeals for the District of Columbia Circuit upheld the CTEA, *Eldred v. Reno*, 239 F.3d 372 (D.C. Cir. 2001), and the Supreme Court affirmed, *Eldred v. Ashcroft*, 537 U.S. 186 (2003).

3. *Eldred*, 537 U.S. at 219.

4. *Id.* at 221.

5. No. 04-1360 (2d Cir. Apr. 16, 2004) (order denying stay of injunction pending

the motion from a software distributor, 321 Studios, for an emergency stay of a preliminary injunction issued by the District Court for the Southern District of New York against the distribution of 321 Studios' DVD backup and recovery software.⁶ 321 Studios requested a stay pending consideration of two constitutional questions: (i) whether the anti-trafficking provisions of § 1201(a)(2) and (b)(1) of the Digital Millennium Copyright Act ("DMCA")⁷ impermissibly altered the contours of copyright, effectively curtailing appropriate fair uses of digital works protected by technological measures, and (ii) whether the DMCA invalidates the constitutional limitation on the term of copyright by prohibiting the manufacture and sale of tools needed to exploit works protected by technological protection measures after the copyright term expires. Because the District Court relied explicitly (as had the District Court for the Northern District of California in *321 Studios v. MGM Studios, Inc.*)⁸ on the Second Circuit's opinion in *Universal City Studios, Inc. v. Corley* ("Corley")⁹ without consideration of the implications of *Eldred*, only a higher court review could have altered the analysis.¹⁰

By failing to accept 321 Studios' emergency plea for a stay pending full consideration of the merits, the Second Circuit lost the chance to take into account the impact of the intervening holding in *Eldred* as well as significant facts that distinguished the New York Litigation from *Corley*. The Second Circuit, to the profound misfortune of 321 Studios and loss to the general public, let stand a less than trenchant opinion of the anti-trafficking provisions of the DMCA in the face of a record that showed that consumers were being denied the tools to make fair uses of copyrighted works and unrestricted use of public domain works. The result is a chilling of activity that is privileged under the First Amendment and a validation

appeal).

6. Paramount Pictures Corp. v. 321 Studios, No. 03-CV-8970 (RO), 2004 U.S. Dist. LEXIS 3306 (S.D.N.Y. Mar. 3, 2004). This suit is sometimes referred to hereinafter as the "New York Litigation."

7. 17 U.S.C. §§ 1201–1205 (2000).

8. 321 Studios v. MGM Studios, Inc., 307 F. Supp. 2d 1085 (N.D. Cal. 2004). See *infra* Part V.A. This suit is sometimes referred to hereinafter as the "California Litigation."

9. 273 F.3d 429 (2d Cir. 2001). *Corley* was the third in a series of three related cases. The first two were *Universal City Studios, Inc. v. Reimerdes*, 82 F. Supp. 2d 211 (S.D.N.Y. 2000) ("*Reimerdes I*") and *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294 (S.D.N.Y. 2000) ("*Reimerdes II*"). These cases are discussed *infra* Part V.C.2.

10. 321 Studios' business was so devastated by the effects of the lower court injunctions and the costs of the six lawsuits in which it was involved that it was forced to close down and therefore could not prosecute its appeals to the Second and Ninth Circuit courts. See *infra* Part V.C.6.

of a mechanism that can confer perpetual copyright status on public domain works. Too late to help 321 Studios, a bill that would have altered this result by restoring the fair use defense for digital works was introduced, but died with the end of the 108th Congress.¹¹

II. 321 STUDIOS

In 2001, Robert Moore and Rob Semaan founded Terr, LLC, a company based in St. Louis, Missouri that did business as 321 Studios. The mission of the company was to provide software tools to help consumers protect their investment in digital media. Until it was forced out of business by no fewer than six separate lawsuits and two federal court injunctions, it was the leading provider of DVD backup, recovery, and creation software. 321 Studios had distributors and sales offices throughout Asia-Pacific, Europe, and the United States, and its premier DVD backup title, DVD X Copy Platinum, was one of PC Magazine's "Best Products of 2003."¹²

Despite the popularity of its products with consumers, 321 Studios found itself at the center of a legal struggle to establish that its DVD-copying software did not violate U.S. copyright law. Ultimately, 321 Studios was driven out of business before the serious constitutional questions that were raised by its products could receive full appellate consideration in court. The story of the 321 litigation must be told against the history of the DMCA and, specifically, of its rules regulating access to digital works.

III. THE DIGITAL MILLENNIUM COPYRIGHT ACT

A. Background and Legislative History

The right to control access to digital works was at the heart of the digital debate that began when the Clinton Administration took office in 1993 and attempted to bring a new order to the use of the Internet as an international communications medium. The debate culminated in 1998 in the enactment of the DMCA.

In 1994, the National Information Infrastructure ("NII") Task Force, which was spearheaded by the Department of Commerce

11. Digital Media Consumers' Rights Act of 2003, H.R. 107, 108th Cong. (1st Sess. 2003). See *infra* Part VI.C.

12. See Press Release, 321 Studios, PC Magazine Names DVD X Copy PLATINUM(TM) As One of the Best Products of 2003 (Jan. 6, 2004) (on file with the Santa Clara Computer and High Technology Law Journal). For a more complete description of 321 Studios' DVD-copying software products, see *infra* Part IV.

("DOC"), published a *Green Paper* calling for public input on the need for expanded regulation of the digital environment.¹³ In fulfilling its responsibilities, the DOC, led by the Commissioner of the U.S. Patent and Trademark Office ("PTO"), held public hearings and initiated a Conference on Fair Use ("CONFU") designed to develop guidelines for use of copyrighted works in numerous educational settings.¹⁴ Following many hours of hearings and receipt of reams of public comments, in 1995 the NII Task Force released *The Report of the Working Group on Intellectual Property Rights*.¹⁵ The Report, dubbed the *White Paper*, stressed that U.S. copyright law was substantially fit for handling most important issues in the digital context; however, in the words of the *White Paper*, like a well-worn coat, some tailoring was needed to keep it fitting just right.¹⁶ Among its core recommendations was the creation of new prohibitions on devices or services designed to circumvent technological mechanisms, which protect the rights of copyright owners and which affect newly recognized copyright management information.¹⁷

There was much public discussion about the copyright issues raised in the *White Paper* and continued hearings in Congress and meetings of CONFU focused on how U.S. copyright law should be reformed. At the conclusion of 1996, a Diplomatic Conference was held in Geneva under the auspices of the World Intellectual Property Organization ("WIPO") to consider, *inter alia*, amendments to the Berne Treaty¹⁸ along the lines set forth in the NII Report in order to

13. INFORMATION INFRASTRUCTURE TASK FORCE, WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS, INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE: THE REPORT OF THE WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS 3 (September 1995) (citing INFORMATION INFRASTRUCTURE TASK FORCE, WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS, INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE: A PRELIMINARY DRAFT OF THE REPORT OF THE WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS (July 1994)).

14. For additional background on CONFU, see Association of Research Libraries, *Conference On "Fair Use" Of Copyrighted Works Concludes Without Consensus; Educators, Scholars, Librarians To Explore Next Steps* (1998), at <http://www.arl.org/info/fm/copy/confustate.html> (last visited Jan. 23, 2005).

15. INFORMATION INFRASTRUCTURE TASK FORCE, WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS, INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE: THE REPORT OF THE WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS (September 1995).

16. *Id.* at 212.

17. *Id.* at 230-31.

18. The Berne Convention for the Protection of Literary and Artistic Works (Paris 1971), available at http://www.wipo.int/treaties/en/ip/berne/trtdocs_wo001.html, is the leading international copyright treaty. In 1976, the United States began a process of stripping copyright law of required formalities and making other changes necessary to conform to the Berne

develop an international consensus on treatment of copyright in a digital world. WIPO adopted a series of amendments to the Berne Treaty (the "WIPO Treaty"),¹⁹ and as a signatory to the Berne Treaty, the U.S. Congress had to approve the WIPO Treaty and implement any changes in U.S. law needed to conform its statutes to Berne. Consideration of the changes to U.S. copyright law framed the Congressional debate. Senator Orrin Hatch, chairman of the Senate Judiciary Committee, renamed the implementing legislation for the WIPO Treaty "The Digital Millennium Copyright Act,"²⁰ thereby stressing its importance for U.S. copyright policy. The bill was the focal point of all legislative debate on copyright issues, including anti-circumvention. Specifically, at the top of the diplomatic agenda for conforming U.S. law to Berne was a statutory change that would declare anyone unlawfully accessing a digital copyrighted work protected by a technological protection measure ("TPM") to be civilly and criminally liable for infringement.

Copyright owners sought a ban on circumvention that would both prevent the manufacture and sale of devices that could technologically open the digital locks and at the same time make an individual's action of circumvention unlawful as well. Opponents of a ban on circumvention argued that the changes would decimate the decades-old balance in copyright law that allowed for an opportunity to engage in independent criticism, scholarship and teaching. If access could be technologically restricted by the copyright owner, they reasoned, how could the public exercise fair use with regard to those works?

In the end Congress sided with the copyright owners, concluding that the threat of digital theft facing copyright owners was far greater than any they had faced in a generation. The resulting legislation, found in § 1201 of the Copyright Act,²¹ has three primary prohibitions. Section 1201(a)(1) prohibits any person from circumventing a TPM, which effectively controls access to a copyrighted work without authorization of the copyright owner.²² Section 1201(a)(2) prohibits manufacturing and trafficking in tools that enable circumvention of a TPM to obtain unauthorized access to

Convention. The United States acceded to Berne in 1989.

19. WIPO Copyright Treaty, adopted by the Diplomatic Conference on Certain Copyright and Neighboring Rights Questions, Geneva, Switzerland, Dec. 20, 1996, *available at* <http://www.wipo.int/documents/en/diplconf/distrib/94dc.htm>.

20. S. 2037, 105th Cong. (2d Sess. 1998).

21. Digital Millennium Copyright Act § 1, 17 U.S.C. § 1201 (1998).

22. 17 U.S.C. § 1201(a)(1) (1998).

protected works, while § 1201(b) prohibits manufacturing and trafficking in tools that bypass TPMs which effectively protect a copyright holder's statutory rights.²³

B. Section 1201

The prohibition in § 1201(a)(1)(A) reads in pertinent part: "No person shall circumvent a technological measure that effectively controls access to a work protected under this title."²⁴ The prohibition in § 1201(a)(2) reads as follows:

No person shall manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof, that—

(A) is primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to a work protected under this title;

(B) has only limited commercially significant purpose or use other than to circumvent a technological measure that effectively controls access to a work protected under this title; or

(C) is marketed by that person or another acting in concert with that person with that person's knowledge for use in circumventing a technological measure that effectively controls access to a work protected under this title.²⁵

The prohibition in § 1201(b) reads as follows:

Additional violations. (1) No person shall manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof, that—

(A) is primarily designed or produced for the purpose of circumventing protection afforded by a technological measure that effectively protects a right of a copyright owner under

23. *Id.* § 1201(a)(2); *Id.* § 1201(b).

24. *Id.* § 1201(a)(1)(A).

25. *Id.* § 1201(a)(2). The phrases "primarily designed" and "limited commercially significant purpose," which appear in §§ 1201(a)(2) and 1201(b)(1) were carefully crafted with an eye toward the decision of the United States Supreme Court in the Sony Betamax case. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) ("Sony"). The Supreme Court in that case held that video recorders have "substantial non-infringing uses," and, that, therefore, Sony's sale of such equipment to the general public did not constitute contributory copyright infringement. *Id.* at 456. Although the computer equipment industry lobbied for a Sony-standard to be used in § 1201, Congress opted for the stricter standard. It was clear even at the time the DMCA was passed that this standard would give rise to legal challenges.

this title in a work or a portion thereof;

(B) has only limited commercially significant purpose or use other than to circumvent protection afforded by a technological measure that effectively protects a right of a copyright owner under this title in a work or a portion thereof; or

(C) is marketed by that person or another acting in concert with that person with that person's knowledge for use in circumventing protection afforded by a technological measure that effectively protects a right of a copyright owner under this title in a work or a portion thereof.²⁶

To placate those concerned about the broad sweep of the rules, Congress crafted several compromises.

1. Library of Congress Triennial Proceedings

The Report accompanying the House Commerce Committee's version of the DMCA bill stated:

Given the threat of a diminution of otherwise lawful access to works and information, the Committee on Commerce believes that *a "fail-safe" mechanism is required*. This mechanism would monitor developments in the marketplace for copyrighted materials, and allow the enforceability of the prohibition against the act of circumvention to be selectively waived, for limited time periods, if necessary to prevent a diminution in the availability to individual users of a particular category of copyrighted materials.

Section 102(a)(1) of the bill creates such a mechanism. It converts the statutory prohibition against the act of circumvention into a regulation, and creates a rulemaking proceeding in which the issue of whether enforcement of the regulation should be temporarily waived with regard to particular categories of works can be fully considered and fairly decided on the basis of real marketplace developments that may diminish otherwise lawful access to works.²⁷

Accordingly, Congress delayed implementation of the § 1201(a)(1) prohibition for two years and provided that during that two-year period and each succeeding three-year period the Librarian of Congress would supervise a regulatory process to determine

26. 17 U.S.C. § 1201(b) (1998).

27. HOUSE COMMITTEE ON COMMERCE, DIGITAL MILLENNIUM COPYRIGHT ACT OF 1998, H.R. REP. NO. 105-551, pt. 2, at 36 (1998) (emphasis added).

whether access to particular classes of works protected by anti-circumvention technology should nevertheless be allowed to facilitate fair use and other copyright law limitations.²⁸ After the initial two-year study by the Copyright Office, completed in October 2000, the Librarian determined that only two specific classes of works should be exempt from anti-circumvention restrictions. The first exempt class consisted of compilations consisting of lists of websites blocked by filtering software applications.²⁹ The second exempt class, relevant to the concerns of 321 Studios, was literary works, including computer programs and databases, protected by access control mechanisms that fail to permit access because of malfunction, damage, or obsolescence.³⁰

2. Statutory Exemptions

The second compromise was a group of explicit exceptions to the anti-circumvention rules. These exemptions allowed, under certain specified conditions, circumvention of TPMs for purposes of (i) browsing by nonprofit libraries, archives, and educational institutions;³¹ (ii) law enforcement, intelligence, and other

28. Section 1201(a)(1)(B) provides that the anticircumvention prohibition shall not apply to persons who are users of a copyrighted work which is in a particular class of works, if such persons are, or are likely to be in the succeeding 3-year period, adversely affected by virtue of such prohibition in their ability to make noninfringing uses of that particular class of works

17 U.S.C. § 1201 (a)(1)(B) (1998). In conducting the rulemaking, the Librarian is to examine (i) the availability for use of copyrighted works; (ii) the availability for use of works for nonprofit archival, preservation, and educational purposes; (iii) the impact that the prohibition on the circumvention of technological measures applied to copyrighted works has on criticism, comment, news reporting, teaching, scholarship, or research; (iv) the effect of circumvention of technological measures on the market for or value of copyrighted works; and (v) such other factors as the Librarian considers appropriate.

Id. § 1201(a)(1)(C).

29. Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, Final Rule, 65 Fed. Reg. 64,556, 64,562 (Oct. 27, 2000) (to be codified at 37 C.F.R. pt. 201).

30. *Id.* The 2003 rulemaking proceeding is discussed *infra* Part V.B. It should be noted that fair use is specifically identified as a concern in the Librarian's Statement accompanying the 2000 rulemaking: "I want . . . to stress the importance to the nation of preserving the principle of 'fair use' in the digital age," and, pointing to a need for statutory change demonstrated by the rulemaking: "I will ask that Congress consider developing more appropriate criteria for assessing the harm that could be done to American creativity by the anti-circumvention provision of the statute." Statement of James H. Billington, Librarian of Congress, on Section 1201(a)(1) Rulemaking (Oct. 27, 2000) (on file with the Santa Clara Computer & High Technology Law Journal).

31. 17 U.S.C. § 1201(d). Qualifying public institutions are permitted to circumvent TPMs

government activities;³² (iii) reverse engineering;³³ (iv) encryption research;³⁴ (v) detecting and disabling personally identifying information,³⁵ and (vi) security testing.³⁶ A separate complex provision addresses the treatment of TPMs on analog devices.³⁷

3. Incorporation of Fair Use Concern

The DMCA does reference fair use and other statutory limitations as qualifications on the rights set forth in § 1201. In § 1201(c)(1) Congress provided that “[n]othing in this section shall affect rights, remedies, limitations, or defenses to copyright infringement, including fair use, under this title.”³⁸ That is, *once lawful access is obtained, the other limitations and defenses of copyright law (including fair use) and the Constitution come into play*.³⁹ In short, § 1201 does not, on its face, diminish fair use

to gain access to a copyrighted work *solely* in order to make a good faith determination whether to acquire a copy of the work or not. This accessed copy cannot be retained longer than necessary to make the acquisition determination and may not be used *for any other purpose*, and the work must not be otherwise reasonably available in any form. Violations of the limitation will subject the nonprofit to civil damages, and repetitive violations can result in loss of the exemption. The exemption is *not* a justification to traffic in prohibited equipment. A central question not answered by the DMCA is how a qualified library can obtain the means to circumvent if the selling of equipment is prohibited under the ban on infringing devices.

32. Digital Millennium Copyright Act § 1, 17 U.S.C. § 1201(e) (1998).

33. 17 U.S.C. § 1201(f). A lawful user of a computer program may circumvent TPMs to ensure that the program can work with other programs (interoperability) provided there is no readily available commercial alternative for that purpose. The research may be shared with others, as long as it does not constitute a copyright infringement of the original or related work.

34. *Id.* § 1201(g). Circumvention is permitted in the context of “good faith encryption research” with respect to copies lawfully acquired. Persons availing themselves of this exemption must have tried to get permission of the original owner and cannot engage in practices deemed a violation of computer fraud laws.

35. *Id.* § 1201(i). Circumvention is permitted to detect and disable technology that collects and then distributes information about an online subscriber that was not authorized by the subscriber.

36. *Id.* § 1201(j). Circumvention is permitted for good faith efforts to access a computer system or network (with permission of the network owner) to investigate and correct a security flaw.

37. After a phase-in period, the law requires compliance by analog recording device manufacturers with anti-copy technologies that do not affect the playability of the machines or restrict lawful activities. *Id.* § 1201(k).

38. *Id.* § 1201(c)(1).

39. That the role of fair use was to continue unimpeded with respect to works for which a user has obtained lawful access is clear from the legislative history. As noted by the Register of Copyrights,

Today, the fair use doctrine plays a critical role in calibrating an appropriate balance between the rights of copyright owners and the interests of users of copyrighted works. It modifies the grant of private ownership rights by allowing certain beneficial and reasonable uses of works without the copyright owner’s

entitlements of users who have obtained lawful access to a work protected by a TPM. However, this provision does not address the question of how one can obtain fair use of works where lawful access has not first been obtained. Nor does it ensure that tools needed to copy a digital work protected by a TPM will be available even for those with lawful access. In other words, § 1201(c) has no bearing on whether § 1201 recognizes fair use as a defense to circumvention.

IV. 321 STUDIOS' PRODUCTS AND THE LEGAL ISSUES THEY RAISED

A. The Need for the Software

In the last five years DVDs have become the medium of choice for distribution of motion pictures. While VHS tapes are still available, many movie titles are sold only on DVD, and the VHS format, once the backbone of the home entertainment rental market, is being phased out. At the same time consumers are, at considerable expense, building DVD movie libraries. New DVD titles are a staple of commerce, marketed by eager movie studio executives as an indestructible medium.⁴⁰ In the face of this marketing pitch, a basic reality has been observed: DVDs are in fact a more fragile medium than originally thought. During routine use, they are susceptible to being scratched, chipped and broken, as well as damaged by light and heat, rendering them partially if not completely unusable.⁴¹ Rather

consent. Fair use should continue to play this critical role in the digital environment, both today and as technology evolves in the future.

Answers Concerning the National Information Infrastructure Copyright Protection Act (H.R. 2441 and S. 1284) Prepared by Marybeth Peters, The Register of Copyrights, submitted to the Honorable Carlos J. Moorhead, Chairman, Subcomm. on Courts and Intellectual Property, (Feb. 15, 1996), at <http://www.copyright.gov/docs/niistat.html>.

However, the fair use doctrine was markedly constricted with respect to works for which lawful access was not secured with permission of the copyright owner.

40. *The Digital Media Consumers' Rights Act of 2003: Hearing on H.R. 107 Before the Subcomm. on Commerce, Trade, and Consumer Protection*, 108th Cong., May 12, 2004 ("2004 Hearing") (testimony of Jack Valenti, President and Chief Executive Officer, Motion Picture Association of America), available at <http://energycommerce.house.gov/108/Hearings/05122004hearing1265/Valenti1987.htm>.

41. DVDs are highly susceptible to mechanical failure, particularly failure caused by delamination and oxidization. See, e.g., Douglas Dixon, "DVD Rot"/DVD Longevity and Reliability (Sept. 2003), at http://www.manifest-tech.com/media_dvd/dvd_compatibility.htm. See also Fred R. Byers, *Care and Handling of CDs and DVDs—A Guide for Librarians and Archivists*, NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY SPECIAL PUBLICATION 500-252 vi, 11 (Oct. 2003), available at <http://www.itl.nist.gov/div895/carefordisc/CDandDVDCareandHandlingGuide.pdf>. This 2003 study by the National Institute of Standards and Technology confirmed that the longevity and

than hearing movie distributors expressing concern for their customers' expensive DVD movie collections, the public is often told that there is no return or exchange policy on DVDs, leaving many owners of damaged DVDs the choice of either repurchasing DVD movies at full retail price (assuming they are still available), watching flawed versions of programs or missing works entirely. As these market realities were playing out, 321 Studios developed its software products to offer the public a practical way to preserve DVD movie collections, relying on its good faith belief that consumers are entitled to protect their investment in DVD movies by making backup use copies.

321 Studios' first generation product was called DVD Copy Plus, which allowed consumers to copy the video and sound content of a DVD onto a CD.⁴² It consisted of an electronic guide explaining how to create backup copies of DVDs, bundled with two pieces of previously publicly available software which could be fully downloaded from Internet websites and included with DVD Copy Plus as a convenience, and a licensed CD burning application.⁴³ By the time of the California Litigation,⁴⁴ it had been largely replaced in the market by DVD X Copy, a more sophisticated product, which allowed consumers to make an archival DVD backup copy of an original DVD, including original menus and special features, and also to recover data from DVDs that had been scratched or damaged.⁴⁵ All of 321 Studios' DVD-copying products are referred to hereinafter as the "321 Software."

B. DVD Access Controls

Access to many DVDs is controlled by a format called the Content Scramble System ("CSS"), which is an access control system.⁴⁶ CSS was developed in the mid-1990s at the behest of the

durability problems reported by DVD users are both real and economically significant.

42. 321 Studios v. MGM Studios, Inc., 307 F. Supp. 2d 1085, 1089 (N.D. Cal. 2004).

43. *Id.*

44. *Id.*

45. Subsequently 321 Studios introduced enhanced versions of DVD X Copy; namely, DVD X Copy Gold, DVD X Copy Platinum and DVD X Copy Express. All these products worked essentially in the same manner as DVD X Copy, but had some additional features and functionality, e.g., different data compression methods and DVD burning engines.

46. Whether CSS is an effective copy control system remains controversial. Although Judge Kaplan found it to be in *Reimerdes II*, the Second Circuit reserved judgment on the matter in *Corley*. *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 438 n.5 (2d Cir. 2001). According to experts, while CSS does not prevent the content of a CSS-protected DVD from being copied, the copy would not be useful because it would be missing the CSS "lock" that

motion picture industry, which was not willing to release movies in digital form without protection against the risk of piracy.⁴⁷ CSS is used to encrypt video content regardless of its copyright status. Thus, some CSS-encrypted DVDs embody works in the public domain, including video works that were never protected by copyright (works for which copyright protection has expired and works of the U.S. Government).⁴⁸

CSS uses a mathematical algorithm and a set of electronic "keys" to encrypt the contents of the DVD. The technology is licensed to the manufacturers of DVD players under a scheme administered by the DVD Copyright Control Authority. However, all thirty-one CSS keys and the algorithm that can be used to decode a DVD are publicly available on the Internet.⁴⁹ Just like any licensed DVD player, the 321 Software works by using these keys to read CSS-encoded data and then using the well known CSS algorithm to decode the data.⁵⁰

C. 321 Studios' Anti-Piracy Measures

In contrast to the statutory standard in § 1201(a)(2)(A) and (B) and § 1201 (b)(1)(A) and (B),⁵¹ 321 Studios characterized its software as multi-functional and multi-purposed.⁵² The 321 Software was

enables the content to be accessed and viewed. *See, e.g.*, Declaration of Robert W. Schumann In Support of Plaintiffs' Motion for a Preliminary Injunction at ¶ 22, Paramount Pictures Corp. v. 321 Studios, No. 03-CV-8970 (RO), 2004 U.S. Dist. LEXIS 3306 (S.D.N.Y. Mar. 3, 2004).

47. *Corley*, 273 F.3d at 436.

48. 321 Studios introduced evidence regarding such works before the Copyright Office and in the New York Litigation. As discussed *infra* Part V.C.2, this evidence was a factor distinguishing the New York Litigation from *Corley*.

49. In September 1999, Jon Johansen, a Norwegian teenager, figured out how to crack the CSS code. Dubbed DeCSS, his code-cracking program traded throughout the universe of computer hackers. The movie and recording industry launched legal challenges to the DeCSS program, successfully prevailing against defendants by persuading the courts that DeCSS violated the anti-circumvention provisions of § 1201. One of these defendants was Reimerdes. *See infra* Part V.C.2. In 2004, a court in Norway found Johansen innocent of criminal copyright infringement under Norwegian law. William Stoichevski, *Norway's DVD Hacker Acquitted Again*, MIAMI HERALD, Dec. 23, 2003, at 8.

50. *See* 321 Studios v. MGM Studios, Inc., 307 F. Supp. 2d 1085, 1089 (N.D. Cal. 2004).

51. The prohibitions apply to tools "primarily designed . . . for the purpose of circumventing" or that have "only limited commercially significant purpose . . . other than to circumvent." 17 U.S.C. §1201(a)(2)(A)–(B), (b)(1)(A)–(B) (1998).

52. 321 Studios' customers use its software for diverse purposes. Examples supplied to 321 Studios in hundreds of declarations from its customers included the following: a medical physicist inserts clips from popular movies into training tapes for radioactive patients and nursing staff; a father edits out material he deems inappropriate for his children, including removing R-rated and unrated materials from DVDs containing films rated for children, and a woodworker copies instructional videos so that they will play on his computer DVD drive.

promoted to enable consumers to make backups of lawfully-purchased DVDs for private, archival—not Internet-sharing—purposes, to repair damaged DVDs, and to reproduce homemade digital files. Further, 321 Studios adopted a set of anti-piracy measures to minimize the chances that its products would be used for infringing purposes. These measures included the following: (i) requiring users to register to activate its software (after registration, every backup copy is “watermarked” so that it can be traced to a registered user, and every copy contains an indelible notice stating it is for private, backup purposes only and not for sale); (ii) automatically erasing content from a computer as it copies to a recordable DVD, preventing storage on a hard drive; (iii) embedding a digital semaphore or bit flag in each copy to prevent serial copying using the 321 Software; (iv) including educational information about copyright in the packaging and requiring compliance with the law in its End User License Agreement, and (v) disabling users believed to be infringing copyrights.⁵³

The principals of 321 Studios acknowledged that the 321 Software did not prevent unauthorized copying. Users could make multiple copies of a single work one at a time, or, using other software, users could copy a backup DVD. However, as every backup is marked with an indelible disclaimer, the copy could not be sold as an original. As further evidence of its *bona fides*, 321 Studios publicly committed to pay a \$10,000 reward for information leading to conviction of anyone who used the 321 Software to market bootlegged DVDs⁵⁴ and offered to work with the movie studios on additional technological fixes designed to minimize unauthorized activities. The latter offer was not acted on by the studios.

V. THE LITIGATION

A. *The California Litigation*

In 2002, DVD owners began hearing from distributors that the motion picture industry was claiming that the 321 Software was

53. These measures are in contrast to the activities of the defendants in the *Reimerdes* and *Corley* cases (“[T]he record clearly demonstrates that the chief focus of those promoting the dissemination of DeCSS [was] to permit widespread copying *and dissemination of unauthorized copies of copyrighted works*.” *Universal City Studios, Inc. v. Reimerdes*, 82 F. Supp. 2d 211, 223 (S.D.N.Y. 2000) (“*Reimerdes I*”) (emphasis added)).

54. In three years of operation, 321 Studios sold in excess of 750,000 copies of the 321 Software. With consumers making millions of backups, only two DVDs made with the 321 Software were alleged to have been placed on the black market.

illegally allowing consumers to back up their purchased DVDs.' In April 2002, after reading a newspaper article quoting a Motion Picture Association of America ("MPAA") representative's statement that its DVD Copy Plus and DVD X Copy were primarily intended to facilitate the making of unlawful copies of DVDs and thus were illegal devices under § 1201 of the DMCA, 321 Studios initiated a lawsuit in the Northern District of California against eight motion picture studios.⁵⁵ 321 Studios sought a declaratory judgment that, contrary to that assertion, when consumers use the 321 Software they are engaging in fair practices under the copyright law, including activities permitted under §§ 107, 108, and 117.⁵⁶ The studios filed a motion for summary judgment. On February 20, 2004, nine months after oral argument on the motion, Judge Susan Illston permanently enjoined 321 Studios from distributing the 321 Software.⁵⁷ On March 4, 2004 Judge Illston denied 321 Studios' motion to stay the injunction pending appeal.⁵⁸ 321 Studios appealed to the Ninth Circuit and also sought a stay of the preliminary injunction pending appeal; the stay was denied pending full consideration of the appeal.⁵⁹

B. The Copyright Office Rulemaking

While the California Litigation was pending, 321 Studios participated in the Copyright Office's 2003 triennial rulemaking proceeding on § 1201⁶⁰ by filing reply comments,⁶¹ by providing a witness at the request of the Register at the public hearing in

55. 321 Studios v. MGM Studios, Inc., 307 F. Supp. 2d 1085 (N.D. Cal. 2004). Eighteen months after the filing of the case in California (April 2002), Paramount and Twentieth Century Fox Film Corporation sued 321 Studios in New York. See *supra* note 6 and *infra* Part V.C.

56. *MGM Studios*, 307 F. Supp. 2d at 1089–90.

57. 321 Studios v. MGM Studios, Inc., 307 F. Supp. 2d 1085, 1108 (N.D. Cal. Feb. 19, 2004) (order granting injunction).

58. Appellant's Motion and Memorandum Requesting Stay of Preliminary Injunction Pending Appeal, 321 Studios v. Paramount Pictures Corp. (2nd Cir. 2004) (No. 04-1360).

59. 321 Studios v. United States D. N.D. of Cal., No. 04-15421 (9th Cir. Apr. 2, 2004) (order denying stay of injunction pending appeal).

60. The Librarian of Congress and the Register of Copyrights initiated the second rulemaking proceeding by publishing a Notice of Inquiry on October 15, 2002. The initial comment period ended on December 18, 2002 and was followed by a reply comment period and public hearings. See Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 67 Fed. Reg. 63,578 (Oct. 15, 2002) (to be codified at 37 C.F.R. pt. 201), available at <http://www.copyright.gov/fedreg/2002/67fr63578.html>.

61. 321 Studios, LLC Reply Comments, In the Matter of Rulemaking from Prohibition on Circumvention of Technological Measures That Control Access to Copyrighted Works, (Feb. 20, 2003) (No. RM 2002-04), available at <http://www.copyright.gov/1201/2003/reply/021.pdf> (last visited Jan. 25, 2005) [hereinafter 321 Reply Comments].

Washington, D.C.,⁶² and by responding in writing to a series of questions posed by the Register directly to 321 Studios and other commenters after conclusion of the public hearing phase of the proceeding.⁶³ 321 Studios asked the Librarian to find that owners of lawfully-acquired DVDs are or are likely to be adversely affected in making non-infringing uses of their DVDs (*i.e.*, the repair of damaged DVDs and the making of archival, backup use copies), and that they should therefore be exempt from the prohibition in § 1201(a)(1).⁶⁴ 321 Studios provided the Register with extensive information regarding the nature of DVDs, technological measures applied to limit access to DVDs, the physical limitations of DVDs, and the experience of customers of 321 Studios and others in being denied access to and use of DVDs and the content embodied therein.⁶⁵

321 Studios noted that in the 2000 proceeding, the Copyright Office considered problems associated with DVDs, but declined to

62. Testimony of Robert Moore at Copyright Office Anticircumvention Rulemaking Hearing (May 2, 2003), *available at* <http://www.copyright.gov/1201/2003/hearings/transcript-may2.pdf>.

63. Comments of 321 Studios, LLC in response to Copyright Office Questions, In the Matter of Rulemaking from Prohibition on Circumvention of Technological Measures That Control Access to Copyrighted Works (June 20, 2003) (No. RM 2002-04), *available at* <http://www.copyright.gov/1201/2003/post-hearing/post09.pdf>.

64. 321 Reply Comments, *supra* note 61, at 1.

65. In the 321 Reply Comments and Robert Moore's testimony, 321 Studios urged the Register to recommend adoption of several exemptions under §1201(a)(1), including: "Class No. 1: Literary and audiovisual works, including motion pictures, embodied in Digital Versatile Disks (DVDs) that are or may become inaccessible by possessors of lawfully-obtained copies due to malfunction, damage, or obsolescence of either the access control mechanism or the material object in which the work is embodied" and "Class No. 2: Literary and audiovisual works, including motion pictures, embodied in Digital Versatile Disks (DVDs) whose access control systems prohibit the creation of or access to replicas of the works." 321 Reply Comments, *supra* note 61, at 1.

321 Studios also supported a number of other exemptions predicated upon fair use and other noninfringing uses, including those relating to a) reproduction, distribution and use of a work not subject to copyright, b) space-shifting of lawfully-obtained copies, c) creation of and access to a replica or backup copy of a lawfully-obtained copyrighted work, d) performance in conjunction with a playback device of one's own choosing, and e) use of a work imported from any region in the world. *Id.* at 12-16.

In its request to the Copyright Office, 321 Studios argued that the rationales used to support the exemption granted in 2000 for literary works protected by access control mechanisms that fail to permit access because of malfunction, damage, or obsolescence were equally relevant to 321 Studios' proposed exemption. *Id.* at 9-10.

321 Studios further stressed that, although the Copyright Office had limited the 2000 exemption to literary works, it acknowledged that problems adversely affecting users could apply to other classes of works. Moreover, it pointed out, since DVDs may be classed as audiovisual as well as literary works, it believed the current limitation should be expanded to cover audiovisual works. *Id.* at 10.

provide for a specific exemption. In the interim, according to 321 Studios, conditions had changed, making it necessary to revisit the conclusion that no exemption was necessary.⁶⁶ In 2000, the Copyright Office had relied on the availability of an analog alternative to DVD format.⁶⁷ 321 Studios pointed to growing evidence that the distributors of movies were planning to phase out VHS and that some titles were only available in DVD format.⁶⁸ The Copyright Office concluded in the 2000 proceedings that no proponent of the argument for an exemption had demonstrated substantial or concrete harm.⁶⁹ 321 Studios appended to its comments scores of declarations indicating that consumers are being adversely affected in their ability to view works embodied in lawfully acquired DVDs.⁷⁰ Additionally, the Copyright Office found in 2000 that it had been presented with no explanation of the technological necessity for circumventing access controls associated with DVDs in order to circumvent the copy controls.⁷¹ 321 Studios, by contrast, presented evidence regarding consumer practices, arguing that

for consumers to fully protect and preserve their investment in DVDs, they must take pro-active measures before the damage renders the DVDs completely unusable, when access and use controls are both fully operational. Even though products like 321 can salvage undamaged portions of the DVD, the pristine version acquired by the consumer no longer exists once damage occurs. Therefore, the copying must be done early enough to preserve the lawfully acquired DVD.⁷²

Despite the evidence 321 Studios amassed in support of its request,⁷³ neither the two classes of exemptions requested by 321 Studios, nor the other classes of exemptions supported by 321 Studios, were recommended by the Register or adopted by the

66. *Id.* at 10–12.

67. See 321 Reply Comments, *supra* note 61, at 10 (citing Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, Final Rule, 65 Fed. Reg. 64,556, 64,568 n.12 (Oct. 27, 2000) (to be codified at 37 C.F.R. pt. 201)).

68. *Id.*

69. *Id.* at 11 (citing Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, Final Rule, 65 Fed. Reg. 64,556, 64,568 n.13 (Oct. 27, 2000) (to be codified at 37 C.F.R. pt. 201)).

70. *Id.*

71. *Id.*

72. *Id.*

73. Appended to 321 Studios' request for an exemption were declarations from consumers describing their use of 321 Software to make personal backup copies of their lawfully-acquired DVDs. See *supra* note 52.

Librarian.⁷⁴ The denial appears to have been based in significant part on the Register's reading of the decision in *Corley*⁷⁵ and its perception, in response to the argument that § 1201 was being applied to deny access to public domain works, that § 1201 was simply inapplicable to those works.⁷⁶

321 Studios' plans to appeal the decision of the Librarian were tabled by the demands of the California Litigation and the New York Litigation.

C. *The New York Litigation*

On November 13, 2003 Paramount Pictures Corporation and Twentieth Century Fox Film Corporation (the "NY Plaintiffs")⁷⁷ filed suit against 321 Studios in the U.S. District Court for the Southern District of New York, seeking a preliminary injunction against its continued sales of its DVD-copying software products.⁷⁸ The NY

74. For the administrative "final rule" recommended by the Register and issued by the Librarian, see Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 68 Fed. Reg. 62,011 (Oct. 31, 2003) (to be codified at 37 C.F.R. pt. 201) [hereinafter Final Rule].

75. For example, "[e]xisting case law is clear that there is 'no authority for the proposition that fair use, as protected by the Copyright Act, much less the Constitution, guarantees copying by the optimum method or in the identical format of the original.'" Memorandum from Marybeth Peters, Register of Copyrights to James H. Billington, Librarian of Congress 117 (Oct. 27, 2003) (citing *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 458 (2d Cir. 2001)), available at <http://www.copyright.gov/1201/docs/registers-recommendation.pdf>

[hereinafter Recommendation]. "As the United States Court of Appeals for the Second Circuit has concluded, 'Fair use has never been held to be a guarantee of access to copyrighted material in order to copy it by the fair user's preferred technique or in the format of the original.'" *Id.* at 118 (citing *Corley*, 273 F.3d at 459). *Corley* is discussed in Part V.C.2.

76. "The author, publisher or distributor is simply precluded from claiming copyright on a public domain work and is precluded from using section 1201(a)(1) from [sic] prevent circumvention of technological protection measures placed on a public domain work." Recommendation, *supra* note 75, at 100. The Final Rule did not address the need for an exception in situations where public domain works were bundled with copyrighted works in a single DVD.

77. Although the NY Plaintiffs were very familiar with the California Litigation, they waited eighteen months to file their New York complaint, raising claims virtually identical to those asserted by the California defendants in a counterclaim. 321 Studios argued that this substantial delay negated the plaintiffs' claim of irreparable harm, a prerequisite for issuance of a preliminary injunction. The District Court judge dismissed this issue without analysis.

78. In seeking a preliminary injunction the NY Plaintiffs relied on 17 U.S.C. § 1203, which provides that "[a]ny person injured by a violation of section 1201 . . . may bring a civil action in an appropriate United States district court," which "may grant temporary and permanent injunctions on such terms as it deems reasonable to prevent or restrain a violation." 17 U.S.C. § 1203 (1998). One of 321 Studios' arguments to the Second Circuit was that the District Court exceeded its authority by including in the preliminary injunction a prohibition on

Plaintiffs alleged that 321 Studios was violating the “anti-trafficking” provisions of the DMCA (both the access protection provisions of § 1201(a)(2) and the copy protection provisions of § 1201 (b)(1)), relying on the decisions of the Second Circuit in *Corley*.⁷⁹

1. Argument of NY Plaintiffs

The argument of the NY Plaintiffs rested on two assumptions: (i) the software at issue in *Corley* was essentially the same as the 321 Software and (ii) *Corley* resolved the constitutionality of the § 1201 prohibitions as applied to fair use of copyrighted works and use of public domain works. 321 Studios responded that neither of these assumptions was correct.

2. The Corley Cases

In 2000, eight motion picture studios brought an action in the Southern District of New York seeking to use § 1201 to enjoin Eric Corley, Shawn Reimerdes and others from posting DeCSS on their website and linking their site to other sites that post DeCSS. The court granted a preliminary injunction barring the defendants from posting DeCSS.⁸⁰ Subsequent motions to expand the preliminary injunction to linking were combined with a trial on the merits, and a permanent injunction was issued against Corley on August 23, 2000 prohibiting him from posting DeCSS on his website or knowingly linking via a hyperlink to any other website containing DeCSS.⁸¹ The injunction was appealed to the Second Circuit, which affirmed the District Court.⁸² In affirming, the Second Circuit rejected three constitutional challenges by Corley to the DMCA. Corley argued that the DMCA violated the “limited times” requirement in the Copyright Clause by allowing copyright owners to effectively obtain perpetual protection by mixing public domain and copyrighted works in the same encrypted format.⁸³ The court rejected this argument for two

321 Studios’ “encouraging the use of” the 321 Software. This prohibition ignores the further language in §1203(b), which says, “but in no event shall [the court] impose a prior restraint on free speech . . . protected under the 1st amendment to the Constitution.” 17 U.S.C. § 1203(b) (1998); Appellant’s Motion and Memorandum Requesting Stay of Preliminary Injunction Pending Appeal at 16, 321 Studios v. Paramount Pictures Corp. (2nd Cir. 2004) (No. 04-1360).

79. See *infra* Part V.C.2.

80. Universal City Studios, Inc. v. Reimerdes, 82 F. Supp. 2d 211 (S.D.N.Y. 2000) (“*Reimerdes I*”).

81. Universal City Studios, Inc. v. Reimerdes, 111 F. Supp. 2d 294, 344 (S.D.N.Y. 2000) (“*Reimerdes II*”).

82. Universal City Studios, Inc. v. Corley, 273 F.3d 429 (2d Cir. 2001).

83. See *id.* at 444–45.

reasons. First, it was raised in a footnote and therefore not properly before the court.⁸⁴ Second, and significant for 321 Studios' case:

to whatever extent the argument might have merit at some future time in a case with a properly developed record, the argument is entirely premature and speculative at this time on this record. There is not even a claim, much less evidence, that any Plaintiff has sought to prevent copying of public domain works, or that the injunction prevents the Defendants from copying such works. As Judge Kaplan noted, the possibility that encryption would preclude access to public domain works "does not yet appear to be a problem, although it may emerge as one in the future."⁸⁵

Corley further argued that the DMCA as applied to his dissemination of DeCSS violates the First Amendment because computer code is "speech" entitled to full First Amendment protection and the DMCA fails to survive the exacting scrutiny afforded statutes that regulate "speech."⁸⁶ The Second Circuit, holding that computer code conveying information is speech within the meaning of the First Amendment,⁸⁷ nevertheless found the restriction on speech in that case to be content-neutral, rather than content-based, and therefore applied the test of whether the restriction served a substantial governmental interest, the interest is unrelated to the suppression of free expression, and the regulation is narrowly tailored.⁸⁸ Had it found that the restriction was imposed because of the content of the speech, a stricter standard of scrutiny would have been required; *i.e.*, whether the restriction served a compelling state interest and did so by the least restrictive means available.⁸⁹ Finally, the court addressed and rejected Corley's argument that the DMCA violates the First Amendment and the Copyright Clause by unduly obstructing the "fair use" of copyrighted materials. But, importantly for 321 Studios, the court stated:

We need not explore the extent to which fair use might have constitutional protection, grounded on either the First Amendment

84. *Id.*

85. *Id.* at 445 (quoting *Reimerdes II*, 111 F. Supp. 2d at 338 n.245).

86. *See id.* at 451.

87. *Id.* at 449.

88. *Corley*, 273 F.3d at 450 (citing *Turner Broad. Sys., Inc. v. FCC*, 512 U.S. 622, 662 (1994)).

89. *Id.* at 450 (citing *Sable Communications of Cal., Inc. v. FCC*, 492 U.S. 115, 126 (1989)). It should be noted, as well, that two types of activity were at issue in *Corley*—posting and linking. The Second Circuit's analysis described above was set forth in the context of posting. Because of the manner in which the injunction at issue was framed, the court found it unnecessary to determine which standard should be applied to the defendants' linking activity.

or the Copyright Clause, because whatever validity a constitutional claim might have as to an application of the DMCA that impairs fair use of copyrighted materials, such matters are far beyond the scope of this lawsuit⁹⁰

3. Response of 321 Studios⁹¹

In its opposition to the preliminary injunction motion, 321 Studios advanced several arguments to demonstrate that the NY Plaintiffs were unlikely to succeed on the merits.⁹² For purposes of this article, we will focus on 321 Studios' contentions that, as construed by the NY Plaintiffs (like the plaintiffs in the California Litigation), the DMCA violates the First Amendment and the Copyright Clause by preventing fair use of CSS-encrypted material⁹³ and access to public domain works.⁹⁴ Unlike *Corley*, 321 Studios

90. *Id.* at 458–59.

91. Upon service of the New York Complaint, 321 Studios promptly moved to transfer the case to the Northern District of California because of the duplicative nature of the claims and to save time and resources. Judge Owen postponed this motion to the preliminary injunction hearing but never allowed argument on the merits of the motion. The motion was denied in his March 3, 2004 order issuing a preliminary injunction. *Paramount Pictures Corp. v. 321 Studios*, No. 03-CV-8970 (RO), 2004 U.S. Dist. LEXIS 3306, *1 n.1 (S.D.N.Y. Mar. 3, 2004).

92. As a preliminary matter, 321 Studios argued that the NY Plaintiffs were not entitled to a preliminary injunction since they failed to demonstrate any irreparable harm. Memorandum of Law in Opposition to Plaintiff's Amended Motion for Preliminary Injunction at 14, *Paramount Pictures Corp. v. 321 Studios*, No. 03-CV-8970 (RO), 2004 U.S. Dist. LEXIS 3306 (S.D.N.Y. Mar. 3, 2004).

93. 321 Studios claimed that *Sony* compels the conclusion that making archival backup copies of DVDs is a fair use under § 107 of the Copyright Act. Memorandum of Law in Opposition to Plaintiff's Amended Motion for Preliminary Injunction at 33–34, *Paramount Pictures Corp. v. 321 Studios*, No. 03-CV-8970 (RO), 2004 U.S. Dist. LEXIS 3306 (S.D.N.Y. Mar. 3, 2004).

94. Memorandum of Law in Opposition to Plaintiff's Amended Motion for Preliminary Injunction at 21–27, *Paramount Pictures Corp. v. 321 Studios*, No. 03-CV-8970 (RO), 2004 U.S. Dist. LEXIS 3306 (S.D.N.Y. Mar. 3, 2004). 321 Studios also advanced a statutory analysis of § 1201 to argue that the DMCA did not prohibit the 321 Software. Section 1201(b), which regulates devices enabling violation of a copyright holder's rights, it claimed, was plainly inapplicable to its case because CSS effectively controls access to, not copying of, DVDs. With respect to § 1201(a)(2), it relied on the definition of the phrase "circumvent a technological measure" in § 1201(a)(3)(A); *viz.*, to "descramble a scrambled work, to decrypt an encrypted work, or otherwise to avoid, bypass, remove, deactivate, or impair a technological measure, without the authority of the copyright owner." 17 U.S.C. § 1203(a)(3)(A) (1998) (*emphasis added*). By definition, 321 Studios claimed, *any* owner of an original DVD has the right to *access* its content. Equally fundamental, 321 Studios argued, was that the sale of the 321 Software did not meet the conditions of §§ 1201(a)(2)(A)–(C), and therein lay the distinction with *Reimerdes* and *Corley*. Factors present in its case, but not present in those cases were the following: (i) the 321 Software is not primarily designed or produced for the purpose of circumvention; (ii) the 321 Software has commercially significant purposes other than circumvention, and (iii) the 321 Software is not marketed as a circumvention device. 321

argued, the facts of its case required an exploration of the constitutional issues.⁹⁵

4. Intervention of the U.S. Government

The U.S. Government filed a motion to intervene in the lawsuit for the stated purpose of defending the constitutionality of the DMCA, and on February 2, 2004 the District Court granted the motion.⁹⁶ The Government's supporting memorandum in favor of the

Studios argued that both *Corley* and *United States v. Elcom Ltd.*, 203 F. Supp. 2d 1111 (N.D. Cal. 2002), also cited by the NY Plaintiffs, involved computer programs that arguably facilitated the instant redistribution of copyrighted content over the Internet. The more appropriate precedent, it claimed, was *The Chamberlain Group, Inc. v. Skylink Technologies, Inc.*, 292 F. Supp. 2d 1040 (N.D. Ill. 2003) ("*Chamberlain*"), *aff'd* (following the conclusion of the 321 litigation) 381 F.3d 1178 (Fed. Cir. 2004). In that case the U.S. District Court for the Northern District of Illinois determined on summary judgment that defendant Skylink Technologies did not violate the DMCA by distributing universal garage door openers which were designed, primarily used, and marketed to enable decryption of garage door software distributed by Chamberlain, because homeowners who had purchased Chamberlain's garage door software had implied authority to decrypt that software. Circumvention, 321 Studios argued, needs to be equated with unauthorized access, not decryption. The Federal Circuit's subsequent affirmance of the District Court's holding in *Chamberlain*, while distinguishing *Corley*, contains the following supportive conclusion: "Copyright law itself authorizes the public to make certain uses of copyrighted materials. Consumers who purchase a product containing a copy of embedded software have the inherent legal right to use that copy of the software. What the law authorizes, Chamberlain cannot revoke." *The Chamberlain Group, Inc. v. Skylink Technologies, Inc.*, 381 F.3d 1178, 1202 (Fed. Cir. 2004).

95. 321 Studios presented an extensive record of declarations and affidavits to support its contention that the public needs the 321 Software to make fair use of copyrighted works on DVD that are CSS-protected, as well as to access and copy CSS-protected public domain motion pictures available on DVDs that are encrypted with CSS.

96. Appellant's Reply Memorandum in Support of Motion to Stay Preliminary Injunction Pending Appeal, 321 Studios v. Paramount Pictures Corp., (2d Cir. Apr. 16, 2004) (No. 04-1360). The Government asserted, *inter alia*, that 321 Studios did not have standing to assert the rights of its customers in the context of this litigation, an assertion which 321 Studios countered in its Memorandum and Reply Memorandum. Citing precedent noted as relevant by the *Corley* court, 321 Studios identified a line of cases establishing that a party may challenge a statute on overbreadth grounds where the statute may constitutionally be applied to the challenger, but is susceptible of application in a manner that would violate the constitutional rights of third parties. Appellant's Reply Memorandum in Support of Motion to Stay Preliminary Injunction Pending Appeal at 9, 321 Studios v. Paramount Pictures Corp., (2d Cir. Apr. 16, 2004) (No. 04-1360) (citing *Broadrick v. Oklahoma*, 413 U.S. 601 (1973); *Bursey v. United States*, 466 F.2d 1059, 1083 (9th Cir. 1972) ("The First Amendment interests in this case are not confined to the personal rights of Bursey and Presley. Although their rights do not rest lightly in the balance, far weightier than they are the public interests in First Amendment freedoms that stand or fall with the rights that these witnesses advance for themselves."); and *Bigelow v. Virginia*, 421 U.S. 809 (1975)). 321 Studios also asserted that, even if the anti-trafficking provisions of the DMCA were not facially overbroad, it would have standing to assert the constitutional rights of its customers based on the relationship between a vendor and its customers. Appellant's Reply Memorandum in Support of Motion to Stay Preliminary Injunction Pending Appeal at 9-11, 321 Studios v. Paramount Pictures Corp., (2d Cir. Apr. 16, 2004) (No. 04-1360) (citing *Singleton v.*

statute's constitutionality argued that the DMCA did not violate the First Amendment because (i) the DMCA is content neutral; (ii) the DMCA furthers important government interests, and (iii) the DMCA is sufficiently tailored to satisfy constitutional requirements. The Government also argued that Congress acted within its constitutional authority when it enacted the DMCA and did not violate the Copyright Clause and specifically the "limited times" provision of that clause. Each of these arguments will be discussed in detail below.⁹⁷

5. The Preliminary Injunction Hearing and Judge Owen's Order

On February 5, 2004 a hearing was held on the preliminary injunction. On March 3, 2004 Judge Owen issued an order granting the motion of the NY Plaintiffs for a preliminary injunction against 321 Studios.⁹⁸ The injunction was styled in a sweeping manner and prohibited 321 Studios from selling the vast majority of its software products, encouraging the use of its products,⁹⁹ helping customers in the U.S. or abroad to use the software effectively and from transferring funds abroad to pay licensors or vendors without prior approval of the Court.¹⁰⁰

The two-and-a-half page opinion, citing *Reimerdes I*, *Reimerdes II* and *Corley* (and ignoring *The Chamberlain Group, Inc. v. Skylink Technologies, Inc.*),¹⁰¹ found that the conduct of 321 Studios was "essentially identical to what this Court and the Second Circuit have heretofor held violates the anti-trafficking provisions of the DMCA."¹⁰² These cases, according to Judge Owen, answered the constitutional issues raised by 321 Studios.¹⁰³

Wuff, 428 U.S. 106 (1976) (finding there to be standing where "the litigant is fully, or very nearly, as effective a proponent . . . and where there [are] obstacles to the third party's assertion of its own rights"))).

97. See *infra* Part VI.A-B.

98. *Paramount Pictures Corp. v. 321 Studios*, No. 03-CV-8970 (RO), 2004 U.S. Dist. LEXIS 3306 (S.D.N.Y. Mar. 3, 2004) (opinion and order granting preliminary injunction).

99. In its appeal brief 321 Studios argued that this aspect of the injunction prohibited lawful speech in violation of its First Amendment rights. See *supra* note 78.

100. *Paramount Pictures Corp.*, 2004 U.S. Dist. LEXIS 3306, at *4.

101. See *supra* note 94.

102. The Order also indicated that the only purpose of the 321 Software is to circumvent CSS. *Paramount Pictures Corp.*, 2004 U.S. Dist. LEXIS 3306, at *2.

103. However, at the hearing, the district court conceded that if customers of 321 Studios may copy DVDs based on fair use grounds but are denied the tools to do so by the Order in this action, that would pose a substantial issue for appeal:

6. The Motion to Stay and Appeal to the Second Circuit

321 Studios immediately appealed to stay the preliminary injunction pending its appeal to the Second Circuit on the grounds that the injunction would ruin its business and that a favorable decision on appeal would be of little significance if 321 Studios were already out of business when it was issued. After a brief “automatic” stay, Judge Owen reinstated the preliminary injunction on March 15, 2004 after oral argument. 321 Studios appealed the entry of the preliminary injunction on March 19, 2004, and on March 22, 2004 filed a motion for a stay of the preliminary injunction pending appeal.

On April 16, 2004 a three-judge panel of the Second Circuit denied 321 Studios’ motion to stay the preliminary injunction and ordered an expedited briefing schedule for the appeal.¹⁰⁴ Unfortunately, the circumstances 321 Studios predicted in its motion to stay the preliminary injunction came to pass, and its business was so devastated by the effects of the injunction and the costs of six separate lawsuits¹⁰⁵ that it was forced to close down. The New York Litigation and the California Litigation were subsequently settled by the parties, leaving in place permanent injunctions. The inability of 321 Studios to prosecute its appeal left open the important constitutional questions it had posed to the Second Circuit.

VI. ALTERING THE CONTOURS OF COPYRIGHT: UNANSWERED CONSTITUTIONAL QUESTIONS REGARDING THE DMCA

Two central questions were posed by the 321 Studios appeal: Is

Lutzker: There is also a Catch-22 which is clearly spelled out . . . again which your Honor did not specifically address, but which I will describe in this fashion . . . and that is if a consumer has a fair use right to engage in decryption but they can’t acquire the tools to do it, is the law consistent with the Constitution?

Court: Well, thinking about what you’re telling me, you got a beauty there. That’s for the circuit and not for me.

Transcript of Mar. 15, 2004 Hearing at 9–10, *Paramount Pictures Corp. v. 321 Studios*, No. 03-CV-8970 (RO), 2004 U.S. Dist. LEXIS 3306 (S.D.N.Y. Mar. 3, 2004).

104. *321 Studios v. Paramount Pictures, Corp.*, No. 04-1360 (2d. Cir. Apr. 16, 2004) (order denying motion to stay injunction pending appeal).

105. *Macrovision Corp. v. 321 Studios*, No. 04-CV-80, 2004 U.S. Dist. LEXIS 8345 (S.D.N.Y. May 12, 2004); *Paramount Pictures Corp. v. 321 Studios*, No. 03-CV-8970 (RO), 2004 U.S. Dist. LEXIS 3306 (S.D.N.Y. Mar. 3, 2004); *321 Studios v. MGM Studios, Inc.*, 307 F. Supp. 2d 1085 (N.D. Cal. 2004); *DVD Copy Control Ass’n v. 321 Studios*, No. 04-CV-1203 (S.D.N.Y. 2004); *Atari, Inc. v. 321 Studios*, No. 04-CV-4458 (RO) (S.D.N.Y. 2004); *Warner Home Video (UK) Ltd. v. Terr LLC*, HC 03 CO 3102/4166 (2004).

§ 1201 of the DMCA contrary to the First Amendment, and is § 1201 contrary to the Copyright Clause of the U.S. Constitution? These questions were left open by *Corley*, and the appropriate analysis to answer them was set forth by the Supreme Court in two post-*Corley* opinions.

A. *The Eldred and Dastar Opinions*

In its 2003 decision in *Eldred*, the Supreme Court upheld the constitutionality of the CTEA based on its observation that “copyright law contains built-in First Amendment accommodations” in the form of the “idea/expression dichotomy” and the fair use defense, and its determination that these safeguards render further First Amendment scrutiny of legislation unnecessary *unless* Congress seeks to alter the traditional contours of copyright protection.¹⁰⁶ The Court stated:

The fair use defense affords considerable “latitude for scholarship and comment” . . . and even for parody The First Amendment securely protects the freedom to make—or decline to make—one’s own speech; it bears less heavily when speakers assert the right to make other people’s speeches. To the extent such assertions raise First Amendment concerns, copyright’s built-in free speech safeguards are generally adequate to address them. We recognize that the D.C. Circuit spoke too broadly when it declared copyrights “categorically immune from challenges under the First Amendment” But when, as in this case, Congress has not altered the traditional contours of copyright protection, further First Amendment scrutiny is unnecessary.¹⁰⁷

Later that year in *Dastar Corp. v. Twentieth Century Fox Film Corp.*, the Supreme Court again addressed the Constitutional mandate against perpetual copyright protection, this time making clear that Congress may not indirectly “alter the contours of copyright” by creating a species of rights that would be impermissible if conferred directly in the form of copyright enhancements.¹⁰⁸ In *Dastar*, the owner of television rights in a copyrighted literary work alleged that the producer of videocassettes embodying an earlier, public domain television series based on the literary work, had violated § 43(a) of the federal Lanham Act,¹⁰⁹ which proscribes false designations of the origin of goods, by marketing its videocassettes without

106. *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003).

107. *Id.* at 220–21 (citations omitted).

108. *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003).

109. Lanham Act, 15 U.S.C. § 1125(a) (2000).

acknowledging that the production embodied therein relied heavily on the earlier, public domain television series.¹¹⁰ In holding that no false designation of origin was shown because the tangible videocassettes did in fact originate with the distributor, the Supreme Court noted that copyright in a work subsists for “limited times,” while protections under the Lanham Act may be perpetual.¹¹¹ Accordingly, to hold that the Lanham Act’s proscription on false designations of origin extends to the intangible works embodied in tangible communicative products would be akin to finding that the Lanham Act created a species of perpetual patent and copyright, which Congress may not do.¹¹²

B. Questions Left Unanswered by the Aborted 321 Studios Cases

The Supreme Court decisions in *Eldred* and *Dastar* were issued subsequent to the Southern District Court and Second Circuit decisions in *Corley*. Thus, it was inappropriate for the district courts in the New York Litigation and the California Litigation to rely on *Corley*, without further analysis under *Eldred* and *Dastar*, for the proposition that § 1201 of the DMCA does not raise constitutional concerns. As matters eventuated for 321 Studios, by denying its motions to stay the decisions in the California Litigation and the New York Litigation, the circuit courts relinquished the opportunity to determine whether § 1201 effected such a change in the contours of copyright as to effectively eliminate the fair use defense in the case of digital works protected by TPMs. Accordingly, the arguments summarized below remain unaddressed.

1. Section 1201 Impermissibly Impinges on First Amendment Protections

As argued by 321 Studios, if a user violates § 1201 by merely *accessing* an encrypted copyrighted work, the traditional contours of copyright law have been dramatically changed because a consumer cannot exercise privileges conferred by the fair use defense without incurring independent liability under § 1201. Furthermore, according to 321 Studios, the DMCA constitutes an impermissible “back door” regulation of speech by banning certain tools necessary to engage in fair use of encrypted digital works. To the extent that the DMCA bans the distribution of software designed to allow consumers to

110. *Dastar*, 539 U.S. at 26–28.

111. *Id.* at 35–37.

112. *Id.* at 37 (citing *Eldred v. Ashcroft*, 537 U.S. 186, 208 (2003)).

make fair use of DVD movies by creating works of art, editing out material deemed offensive to their children, creating training films, or preserving their collections and restoring DVDs to viewable form, Congress has “altered the traditional contours of copyright protection,” and further First Amendment scrutiny is necessary.¹¹³ Without using the 321 Software or software similar to it, there is no practical way to make a high-quality copy of an excerpt from a movie on a CSS-protected DVD, and it is impractical for a user to create and manipulate digital files in the creation of a new, transformative work.¹¹⁴

2. Section 1201 Violates the Copyright Clause

It is clear from the text of § 1201(a)(1) that a work in the public domain is outside the scope of the DMCA. On its face, the statute *only* applies to works “protected under this title.”¹¹⁵ Therefore, by necessary inference, the public has a right to access, copy, and manipulate the CSS-encrypted content that comprises every public domain film. Indeed, even the Register of Copyrights recognized that the DMCA does not prohibit circumvention of a TPM to access a public domain work because such works are not works protected by copyright.¹¹⁶

However, if *all* software that decrypts CSS is banned under § 1201(a)(2) or 1201(b), then CSS-encrypted public domain works may enjoy a perpetual copyright contrary to the limited times proviso of the Copyright Clause. Therefore, to preserve the constitutionality of the DMCA, 321 Studios and other vendors must be understood as having a right, concomitant to public rights in the public domain, to traffic in tools that permit decryption of any TPM that controls access

113. *Eldred v. Ashcroft*, 537 U.S. 186, 221 (2003). Arguably, the required test is one of strict scrutiny because denying users the tools to decrypt effectively controls how content can be used in works that incorporate material protected by TPMs. *See* the discussion on the scope of First Amendment protection for content-based vs. content-neutral restrictions, *supra* Part V.C.2.

114. Although the NY Plaintiffs claimed that one could train a video camera on a screen playing a DVD and tape content off a television, this alternative would relegate a user to an inferior copy (a camera-made version is grainier and does not compare in quality to the original DVD) and potentially require investment in additional equipment to exercise this fair use right. Moreover, a copy made in this manner would lack many of the original DVD’s interactive features. In *Reno v. ACLU*, 521 U.S. 844 (1997), the Supreme Court considered the First Amendment implications of analogous arguments. According to the Court, “one is not to have the exercise of his liberty of expression in appropriate places abridged on the plea that it may be exercised in some other place.” 521 U.S. at 880 (citing *Schneider v. State (Town of Irvington)*, 308 U.S. 147, 163 (1939)).

115. Digital Millennium Copyright Act §1, 17 U.S.C. § 1201(a)(1)(A) (1998).

116. *See supra* note 76.

to and copying of such works. Absent such a right, the DMCA would seemingly violate the “limited times” provision of the Copyright Clause in the U.S. Constitution.

C. A Proposed Legislative Solution: H.R. 107

On the opening day of the 108th Congress, Reps. Rick Boucher and John Doolittle introduced the Digital Media Consumers’ Rights Act of 2003 (H.R. 107).¹¹⁷ The bill proposed amendment of the Federal Trade Commission Act to require adequate labeling of copy-protected CDs, as well as a series of copyright law amendments that address the constitutional questions raised by the DMCA.¹¹⁸ Those amendments would modify § 1201(c) by adding the following language at the end of paragraph (1): “and it is not a violation of this section to circumvent a technological measure in connection with access to, or the use of, a work if such circumvention does not result in an infringement of the copyright in the work,” and by adding at the end the following new paragraph: “It shall not be a violation of this title to manufacture, distribute, or make noninfringing use of a hardware or software product capable of enabling significant noninfringing use of a copyrighted work.”¹¹⁹

Since the legislation touched on trade and copyright law, it was referred jointly to the House Committee on Energy and Commerce and the House Judiciary Committee. While a bill scaling back the DMCA with respect to fair use did not have any traction in the House Judiciary Committee, H.R. 107 was more sympathetically received in the House Commerce Committee.¹²⁰

Still, H.R. 107 did not receive much attention until 321 Studios made a major push for legislative reform in the spring of 2004. That effort, inspired by the California Litigation and the New York Litigation, combined with efforts by a number of other entities long

117. Digital Media Consumers’ Rights Act of 2003, H.R. 107, 108th Cong. (1st Sess. 2003).

118. *Id.* An additional fair use amendment contained in H.R. 107 would amend §§ 1201(a)(2)(A) and 1201(b) by creating an exception to the prohibition for persons doing scientific research into technological protection measures. *Id.* §5(a).

119. *Id.* § 5(b).

120. As a historical antecedent, it was during the DMCA debate that the House Commerce Committee served as a counterbalance to the House Judiciary Committee and took the lead on creating certain “user” protections, such as the § 1201(a)(1) triennial rulemaking proceeding. *See supra* Part III.B.1. It is also historically relevant that the Librarian of Congress expressed concern for the survival of fair use and identified a need for legislative action in the context of the 2000 rulemaking proceedings. *See supra* note 30. Despite the expressed concern, the Librarian never proposed legislative reform.

interested in recalibrating the DMCA to strike a better balance for users (such as computer equipment manufacturers, telecom/privacy interests, copyright policy think-tanks, libraries and educators), resulted in a public hearing on H.R. 107. At the hearing, Joe Barton (R-TX), Chairman of the House Committee on Energy and Commerce, expressed his support for the Boucher-Doolittle Bill and suggested that action within his Committee was likely in the current Congress.¹²¹ However, shortly after the hearing, 321 Studios announced it was going out of business. Soon thereafter, the legislation quietly slipped out of the spotlight and died with the end of the 108th Congress. That is not to say that even if 321 Studios had remained in business H.R. 107 would have been adopted. The proposed law faced intense opposition from content interests who have aggressively challenged legislation designed to poke holes in their digital copyright rights.

VII. CONCLUSION

With a bow to a classic American novel, it may be said that the DMCA sets up a consumer "Catch-22." On the one hand, the public is assured that nothing in the DMCA's anti-circumvention rules will inhibit the robust exercise of fair use and other exemptions long part of the balance of copyright law. Moreover, § 1201 by its own terms only applies to copyrighted works.

121. 321 Studios' Robert Moore testified at the 2004 Hearing on the devastating impact of the litigation on his business and the need for legislative restoration of fair use of digital works. *The Digital Media Consumers' Rights Act of 2003: Hearing on H.R. 107 Before the Subcomm. on Commerce, Trade, and Consumer Protection*, 108th Cong., May 12, 2004 ("2004 Hearing") (testimony of Robert Moore, Chief Executive Officer, 321 Studios), available at <http://energycommerce.house.gov/108/Hearings/05122004hearing1265/Moore1996.htm>. Among others testifying in favor of the bill was Stanford University professor and constitutional law expert Lawrence Lessig, who stated:

This correction to the DMCA is long overdue. It is necessitated first by the limited authority granted to Congress under the Copyright and Patent Clause. As the Supreme Court has repeatedly affirmed, Congress's power under the Copyright & Patent Clause is limited. *Graham v. John Deere Co.*, 383 U.S. 1, 5 (1966) (clause "both a grant of power and a limitation"). As it has recently indicated in *Eldred v. Ashcroft*, among those limits is "fair use." Slip Op. at 30. Yet the DMCA, as interpreted, plainly interferes with the effective exercise of "fair use." And if Congress is restrained by the First Amendment to include "fair use" in the Copyright Act, it is constrained by the First Amendment not to exclude it through other copyright-related rules.

The Digital Media Consumers' Rights Act of 2003: Hearing on H.R. 107 Before the Subcomm. on Commerce, Trade, and Consumer Protection, 108th Cong., May 12, 2004 ("2004 Hearing") (testimony of Lawrence Lessig, Professor of Law, Stanford Law School), available at <http://energycommerce.house.gov/108/Hearings/05122004hearing1265/Lessig1985.htm>.

The reality, on the other hand, is quite different. As a result of the injunctions against 321 Studios, the DMCA's guarantee of fair use and unrestricted access to public domain works is rendered ineffectual. The interpretations of the DMCA by the district courts in New York and California challenge the constitutional premises that ensure the delicate balance of rights and limitations that are essential to copyright law. The 321 Studios test cases offered an opportunity for higher courts to rigorously assess these issues. Unfortunately, with the demise of 321 Studios, the effort was cut short.