Before the
UNITED STATES COPYRIGHT OFFICE
Library of Congress

Notice of Proposed Rulemaking	)	
	)	**37 C.F.R. Parts 201**
	)	
Exemption to Prohibition on Circumvention	)	**Docket No. RM 2008-8**
of Copyright Protection Systems	)	
for Access Control Technologies	)	
	)	

<u>COMMENTS OF CTIA – The Wireless Association®</u>

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February 10, 2012

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I. IDENTIFICATION OF OPPOSED PROPOSED EXEMPTIONS AND SUMMARY OF POSITION

These comments address and oppose three proposed exemptions:

a. Proposed Exemption 6A, submitted by Consumers Union ("CU");

b. Proposed Exemption 6B, submitted by Youghiogheny Communication, LLC ("Youghiogheny");

c. Proposed Exemption 6C, submitted by MetroPCS Communications, Inc. ("Metro PCS") and RCA—The Competitive Carriers Association ("RCA").

Each of these proposed exemptions seek expanded variations of the exemption adopted in 2010 for firmware that enables wireless telephone handsets to connect to wireless telephone networks (the "Wireless Unlocking Exemption").

CTIA – The Wireless Association® opposes the foregoing proposed exemptions on the grounds, among others, that:

- Proponents[1] have failed to meet their burden of adducing any evidence, let alone evidence that is "highly specific, strong and persuasive," that the section 1201(a)(1) prohibition on circumvention will cause a "substantial adverse effect," relying instead on unsupported policy arguments and speculation;

- Proponents do not even attempt to argue that the uses that they want protected are "fair use," and they fail to demonstrate that those uses are "noninfringing," as required by section 1201(a);

- The consumer and public interests purportedly justifying Proponents' exemptions are outside of the scope of section 1201 and are, in fact, being advanced by the wireless industry, which has (i) made available a wide array of handsets with varying capabilities, in numerous ways, through numerous sources, including handsets that are unlocked and handsets that are made available at highly subsidized low cost, (ii) developed wireless handsets and services as a new platform for the use and enjoyment of copyrighted works, (iii) offered liberal unlocking policies for locked handsets, and (iv) undertaken extensive efforts to foster recycling; these goals would best be advanced by denial of the proposed exemptions;

- One of the Proponents – MetroPCS – is seeking improperly to leverage a section 1201(a)(1) exemption to cover the provision of circumvention services, which are the

[1] MetroPCS, RCA, Youghiogheny and Consumers Union are collectively referred to in these comments as "Proponents."

subject of the prohibition in section 1201(a)(2) and which are beyond the scope of this proceeding;

- The availability of other means to accomplish the goals Proponents purport to advance obviates the need for any exemption; and
- There is certainly no justification presented for expanding the exemptions previously approved by the Librarian.

Notwithstanding the foregoing, in light of the facts that (i) Congress established this rulemaking primarily to protect noncommercial individual conduct and (ii) CTIA members do not wish to target individuals who are *bona fide* customers of wireless carriers and who are acting lawfully for their own noncommercial ability to use their own handset on another carrier's network or with another carrier's service, CTIA would not oppose a narrowly tailored and carefully limited exemption directed to such individuals as set forth in Part VIII, *infra*, as long as it is made clear that this exemption does not affect any other rights of the carriers or the prohibition on the provision of circumvention devices or services.

II. THE WIRELESS INDUSTRY AND SUMMARY OF CTIA'S INTERESTS

A. CTIA's Interest in this Rulemaking

CTIA – The Wireless Association® ("CTIA") is an international organization representing all sectors of wireless communications – cellular, personal communication services, and enhanced specialized mobile radio. A nonprofit membership organization founded in 1984, CTIA represents providers of commercial mobile radio services ("wireless telecommunications carriers"), mobile virtual network operators, aggregators of content provided over wireless networks, equipment suppliers, wireless data and Internet companies and other contributors to the wireless universe. A list of CTIA's members appears at <ctia.org/membership/ctia_members>.

As part of its ordinary functions, CTIA frequently participates in administrative proceedings to represent the interests of its members. Among other proceedings, CTIA filed comments with the Copyright Office in connection with the Office's December 29, 2008 Notice of Proposed Rulemaking on the proposed exemptions pursuant to section 1201(a)(1)(C) of the

Copyright Act,[2] and the Office's July 16, 2008 Notice of Proposed Rulemaking on the scope of the section 115 statutory license.[3] CTIA also has filed numerous *amicus* briefs in federal courts on behalf of the wireless industry on a variety of issues, including copyright issues. *See, e.g.*, *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005); *United States v. ASCAP (In re Application of RealNetworks and Yahoo! Inc.)*, 627 F.3d 64 (2d Cir. 2010) (holding that music downloads do not implicate the copyright public performance right); *United States v. ASCAP (In re Application of Cellco Partnership dba Verizon Wireless)*, 663 F. Supp. 2d 363 (S.D.N.Y. 2009) (holding that ringtone sales do not implicate the public performance right).

CTIA and its members have a substantial interest in opposingthe three proposals to renew and expand the Wireless Unlocking Exemption, which threaten the way wireless devices and services, and the software operating thereon, are made available to the public. The wireless marketplace has developed into a vibrant, competitive one, offering consumers extensive choice in service and devices and access to a wide variety of copyrighted works. One feature of the marketplace, which has fostered competition, the widespread availability of handsets, software and services, as well as the extraordinary diversity of functionality available on handsets, is the ability of carriers to subsidize handsets and to offer those handsets and their accompanying software to consumers at prices well below the prices that otherwise would need to be charged. Those subsidies depend on ensuring that the handset will be used, as contemplated, with the carrier's service. A significant means of ensuring that, the handset will be used in connection with the carrier's service is the use of technological prevention measures ("TPMs") to prevent access to software on the handset for uses other than authorized uses. Proponents of the proposed exemptions identified above seek leave to circumvent such technological protections for commercial gain, which will have significant adverse effects on the wireless industry and on the public.

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[2] Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, Notice of Proposed Rulemaking, 73 Fed Reg 79,425 (Dec. 29, 2008).

[3] Compulsory License for Making and Distributing Phonorecords, Including Digital Phonorecord Deliveries, Notice of Proposed Rulemaking, 73 Fed. Reg. 40,802 (July 16, 2008).

B. Background of the Wireless Industry and Applicable Technological Protection Measures

The most recent annual report by the FCC to Congress on wireless competition, released on June 24, 2011, notes that the wireless penetration rate in the United States is now at 93.5%. FCC, *Fifteenth Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services*, WT Docket No. 10-133, FCC 11-103, ¶ 158 (June 27, 2011) ("*Fifteenth Report*"). Fortunately for consumers, the wireless industry in the United States is highly competitive, with more than 97.2% of Americans living in areas covered by at least three competing voice wireless service providers and 89.6% of the population in areas covered by at least five such competing providers. *Id.* ¶ 2. There are four nationwide providers in the United States – AT&T, Verizon Wireless, T-Mobile and Sprint – which together accounted for just over 90 percent of the nation's mobile wireless subscribers (including wholesale subscribers) at the end of 2009. *Id.* ¶ 31.

While this robust competition also driven prices down, wireless providers also have developed strategies for making service accessible to everyone. Most wireless subscribers in the United States subscribe to a service for monthly allotments of services that require set payments each month and pay for additional one-time charges on their monthly bills ("post-paid" service), but the credit requirements, term commitments and recurring monthly charges for post-paid service put wireless service out of reach for some consumers. In response, most wireless providers now also offer pre-paid service, allowing customers to pay in advance for their airtime, which can be purchased in small increments, and does not require a credit check, a recurring monthly fee, or a service term commitment. Pre-paid plans have proven extremely popular, and are growing in numbers of subscribers at over <u>eight times</u> the rate of post-paid plans. *Id.* ¶ 166. In 2009, 21% of U.S. customers had pre-paid plans. *See id.* ¶ 158.

Another key component to keeping wireless service accessible and affordable involves minimizing the cost for consumers to acquire wireless handsets. Consumers have a myriad of choices in which to obtain a handset and initiate service. For example, they may buy an unlocked phone from among an enormous variety of choices (from the inexpensive to the feature-packed) from a third party such as Best Buy or from a manufacturer; buy an unlocked, unsubsidized phone from a carrier; or buy a subsidized, locked phone from a carrier that can be unlocked after the carrier's unlocking policy is satisfied. These choices are readily advertised to consumers – for example, a new Apple iPhone 4S handset is sold at Best Buy for either $199.99 with a new two-year contract, or $699.99 with no contract. *See* <bestbuy.com>. Unlocked (unsubsidized) phones are freely available from third party providers – many at very low prices. *See, e.g.* <bestbuy.com/site/Mobile-Cell-Phones/Unlocked-Mobile-Phones/pcmcat156400050037.c?id=pcmcat156400050037> (listing over 100 unlocked mobile phones, many of them selling for less than $100) (last visited Feb. 6, 2012); <cell2get.com>, <cellhut.com>, <puremobile.com> (websites selling unlocked cell phones) (last visited Feb. 6, 2012); Exhibit A (List of more than 135 phone models available unlocked through carriers or the retailers Best Buy, Wal-Mart or Radio Shack);[4] Exhibit B (Examples of the selling price of diverse unlocked phones available on prepaid plans through Best Buy, Wal-Mart and Radio Shack).[5] Apple began offering an unlocked version of the iPhone 4s in November 2011. With the unlocked version, consumers can use a Subscriber Identity Module ("SIM") card from any GSM carrier to access their network. *CU* Comments at 15 (admitting that "unlocked devices are widely sold").

According to a recent survey, 36% of wireless customers received a free phone from their carrier, and many more received heavily subsidized handsets. J.D. Power and Associates, *U.S. Wireless Mobile Phone Evaluation Study* (2007). Carrier subsidies range from a low of $20 to nearly $500 for some handset models – nonsubsidized models are available for purchase by consumers from most carriers and directly from the handset manufacturers, in the case of heavily subsidized phones such as the iPhone, *supra*,, at a significantly higher cost.[6] Thus, despite the prevalence of other alternatives and the growth of the pre-paid market, an overwhelming majority of U.S. wireless consumers still elect traditional post-paid plans for a fixed term (usually one to two years) with a locking component and a phone subsidy. *See Fifteenth Report* ¶¶ 158, 166.

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[4] Strategy Analytics' SpecTRAX/PriceTRAX service, data pulled February 9, 2012. (Unlocked Phones sold in the past 12 months).

[5] Strategy Analytics' SpecTRAX database service, data pulled December 2, 2011. (Unlocked Handsets for sale as of December 2, 2011).

[6] Exhibit C provides the subsidized (Sub_Price) and unsubsidized ("MRSP") selling price of an array of phones offered by an array of carriers. Source: Frost and Sullivan: Mobile & Wireless Communications Group (Handset Manufacturer and MSRP Summary, February 9, 2012).

Nevertheless, given the wide array of options, the decision to buy a subsidized, locked phone is wholly a matter of consumer choice.

Wireless competition has also led to wide consumer choice both in service plans and among the enormous diversity of handsets capability, from relatively basic telephones to handsets boasting combinations of Internet connectivity, email, text, video and image messaging, cameras, full QWERTY keyboards, touch screens, gyroscopic orientation, navigation services, and diverse entertainment offerings, from streaming video to music, eBooks, and ringtone downloads.

Carriers subsidize the cost of handsets in exchange for a commitment from the customer that the phone will be used on that carrier's service (and/or that it will not be used elsewhere), so the subsidy can eventually be recouped through payment of recurring and usage charges. For post-paid service, carriers have several ways to protect their "investment" in a customer's subsidized handset, including contractual term service commitments, early termination fees, and electronic locks on the phones to protect against transfer to another carrier in violation of the customer's agreement. With pre-paid service, however, there are no term commitments and no early termination fees – carriers must rely on handset locks to protect their subsidies.

An analysis by a Washington think-tank concluded that carrier policies to require term contracts and handset locks provide carriers with an incentive to subsidize equipment and "effectively make wireless services affordable to more Americans," but "if regulation prohibits those activities, then prices must rise and, in turn, consumers would be harmed." George S. Ford, PhD, *et al.*, *Consumers and Wireless Carterfone: An Economic Perspective,* Phoenix Center Policy Bulletin No. 21 at 5-6 (Sept. 2008).

Events over the past few years have borne out carriers' concerns about protecting their subsidy investments in handsets. Individuals and companies involved in large scale phone trafficking operations have begun purchasing bulk quantities of pre-paid phones, hacking out the various protective locks and repackaging and reselling the unlocked phones overseas in countries where carriers do not subsidize handsets. Andrew Welsh-Huggins, *Cell Phone Makers Fight Resales*, The Associated Press (Sept. 12, 2006) (available at <usatoday.com/tech/wireless/2006-09-10-cellphone-resales_x.htm>) (last visited Feb. 8, 2012); Stumar Investigations, Telecom

Arbitrage Violations (describing cell phone arbitrage rings) (<stumarinv.com/index.php/lines-of-business/telecom-arbitrage-violations/>)(last visited Feb. 8, 2012). Websites are cropping up that sell unlock codes, such as: <unlocking.com>; <cellunlocker.net>; <theunlockshack.com>. *Fifteenth Report* ¶ 255, n.741. These organizations profit by, in effect, stealing the subsidies that the carriers intended to benefit consumers. The issue is not limited to new phones – policymakers are increasingly concerned by the high rate of theft of used phones being re-flashed and activated on other carrier networks. *See* Letter from Senator Charles Schumer to Randall Stephenson, AT&T and Timothy P. McCone, Verizon Wireless (Jan. 12, 2012) (Exhibit D) (noting an 18 percent increase in grand larceny of cell phones in New York City between just January and March of 2011 and climbing, and that "There is virtually no deterrence to stealing GSM-network handsets, because it is easy either to replace to SIM card or to unlock the device on a different GSM carrier's Network").[7]

Some carriers have taken aggressive action to try to stop the traffickers, and preserve their ability to keep wireless service affordable for consumers. TracFone Wireless, AT&T Mobility ("AT&T"), T-Mobile USA ("T-Mobile"), and Virgin Mobile USA ("Virgin Mobile") have all filed lawsuits against traffickers, as have wireless equipment manufacturers Nokia and Motorola. The lawsuits assert, among other things, that the traffickers' unlocking of handsets, or conspiring with others who unlock handsets, violates the Digital Millennium Copyright Act ("DMCA"). To date, more than fifty-five (55) consent and default judgments and permanent injunctions have been entered by federal courts across the country finding the traffickers' conduct unlawful and, in many cases, awarding millions of dollars in damages. (Copies of all of the judgments entered since 2006 are available online at <stopcellphonetrafficking.com/court-cases>). Many of those decisions have also held that the DMCA exemption enacted in 2006 for unlocking wireless phones did not preclude liability for traffickers who were engaged in unlocking for profit. *See TracFone Wireless, Inc. v. Zip Wireless Products*, 716 F. Supp. 2d 1275 (N. D. Ga. 2010); *TracFone Wireless, Inc. v. Dixon*, 475 F. Supp. 2d 1236 (M.D. Fla. 2007); *TracFone Wireless, Inc. v. GSM Group, Inc.*, 555 F. Supp. 2d 133 (S.D. Fla. 2008).

[7] As part of its unlocking process, AT&T checks to see if the device has been reported stolen on a previous account. If it has been, AT&T will not unlock the device.

In addition to traffickers who unlock and resell subsidized pre-paid phones overseas, several smaller wireless service providers have begun offering unlocking services as a means of obtaining new customers using phones subsidized by their competitors. The one of those companies, Proponent MetroPCS, has argued in federal court that the exemption for wireless phone unlocking amounts to approval by the federal government of unlocking wireless phones and preempts any and all claims. That argument was rejected. *See MetroPCS Wireless, Inc. v. Virgin Mobile USA, L.P.*, No. 08CV1658-D, 2009 U.S. Dist. LEXIS 88527 at *58-59 (N.D. Tex. Sept. 25, 2009) (Exhibit E).

An unlocking exemption is not necessary to promote competition and foster consumer choice. Wireless carriers are willing to unlock handsets in a wide variety of circumstances. For example, the largest nationwide carriers (constituting the vast majority of the cell phone market, *Fifteenth Report* at Table 4) have liberal, publicly available unlocking policies:

- **T-Mobile** will provide an unlock code to a customer with a postpaid plan upon request, provided the requesting customer has a minimum of 40 days of active service with T-Mobile and did not request an unlock code in the last 90 days. For customers with a prepaid plan, T-Mobile will provide the unlock code upon request, provided the requesting customer has a minimum of 60 days of active service with T-Mobile and either a prepaid plan account balance of at least $10.00 or a prior refill within the last 30 days. T-Mobile will provide the unlock code upon request to former customers, provided that T-Mobile has such code or can obtain it from the manufacturer. Customers who paid full retail price for a device (i.e. an unsubsidized phone) may have the phone unlocked if it was purchased at a T-Mobile retail store or authorized T-Mobile retailer, it was paid for completely, and the customer must be able to fax the proof of purchase to T-Mobile. *See* T-Mobile SIM Subsidy Unlock Code, <support.t-mobile.com/docs/DOC-1588> (last visited Feb. 7, 2012).

- **Verizon Wireless** provides the lock code for its post-paid wireless devices without a SIM card in its Customer Agreement. Verizon Wireless Customer

Agreement, “My Wireless Device” <verizonwireless.com/ customer-agreement.shtml> (last visited Feb. 5, 2012).

- **AT&T** releases unlock codes for most phones to subscribers (1) after their service has been active for 90 days and their accounts are current and in good standing with AT&T at the time of the request, (2) after any period of exclusivity associated with AT&T's sale of the handset has expired; and (3) AT&T has such code or can reasonably obtain it from the manufacturer. iPhones and certain other devices are not eligible to be unlocked. For phones sold with a pre-paid plan, AT&T will provide the unlock code upon request to eligible current and former customers who provide a detailed receipt or other proof of purchase of the phone, or has had AT&T service for six months or longer. AT&T Wireless Customer Agreement, Section 3.1, <wireless.att.com/learn/articles-resources/wireless-terms.jsp> (last visited Feb. 8, 2012).

- In addition, **Virgin Mobile** prepaid customers may have their phones unlocked if they have topped up their service with at least $80.00 of recharge credit (not counting your original included credit) since service was first activated. Postpaid customers may have their handsets unlocked by contacting Virgin Mobile. <virginmobile.custhelp.com/app/answers/detail /a_id/168/~/how-do-i-get-my-virgin-mobile-handset-unlocked%3F> (last visited Feb. 8, 2012).

Therefore, just as consumers have wide choice in handset characteristics and service offerings, customers are freely able to seek out and acquire service from carriers or manufacturers who do not lock their phones or who unlock them. Interestingly, Proponent MetroPCS also sells handsets that have a software lock, despite the fact that its subsidies are typically far lower than those of other carriers. *See* Exhibit F.[8] As stated in MetroPCS' terms of service:

> If your wireless device was purchased from MetroPCS or an authorized MetroPCS dealer, the wireless device has a software programming lock that will

[8] Frost and Sullivan: Mobile & Wireless Communications Group (Smartphone - Average Pricing Summary by Operator, February 9, 2012).

> prevent the wireless device from operating with other compatible wireless telephone carriers' services. Please contact MetroPCS at 1-888-8metro8 for information regarding our software programming lock.

MetroPCS Terms and Conditions, <metropcs.com/metro/tac/termsAndConditions.jsp?terms=Terms%20and%20Conditions%20of%20Service> (last visited Feb. 8, 2012).

The various proposed exemptions related to wireless handset unlocking pose a real threat to the accessibility of wireless service to consumers and to the continued robust development and dissemination of copyrighted works used in connection with mobile handsets.

III. THE PROPER SCOPE OF THIS RULEMAKING IS NARROWLY DIRECTED TO VINDICATING DEMONSTRATED INTERESTS OF INDIVIDUAL USERS THAT LIE AT THE CORE OF THE FAIR USE DOCTRINE, NOT TRAFFICKING OR OTHER COMMERCIAL ACTIVITIES OF CIRCUMVENTERS.

This rulemaking has a narrow focus and purpose. It was added to the DMCA by the House Commerce Committee specifically to address the concern that individuals be permitted to circumvent access control technologies that were depriving them of the ability to engage in conduct at the core of the fair use doctrine. Moreover, this rulemaking applies only to section 1201(a)(1), which prohibits the act of circumventing an access control technology – it has no effect on the separate prohibitions on the performance of circumvention services or the trafficking in circumvention technology found in sections 1201(a)(2), for access control technologies, and 1201(b), for other technologies. Any proposed exemptions should be considered in light of the narrow and targeted nature of this proceeding.

A. The Purpose of this Rulemaking Is To Address Concerns that Access Control Technologies Would Interfere with Fair Use.

The legislative and regulatory history of this rulemaking makes clear that its purpose is to address concerns about <u>individual consumers'</u> ability to continue to engage in fair uses of copyrighted works. Anticircumvention bills reported out of the House and Senate Judiciary Committees in May 1998 provided for no rulemaking at all to create exemptions to the ban on the act of circumventing access-control TPMs. *See The Digital Millennium Copyright Act of 1998*, S. Rep. No. 105-190, at 86 (1998) (reflecting bill text reported on May 11, 1998 by Senate Judiciary Committee, with no provision for this rulemaking); *WIPO Copyright Treaties*

Implementation and Online Copyright Infringement Liability Limitation, H.R. Rep. No. 105-551, pt. 1, at 4 (1998) ("House Judiciary Committee Report") (reflecting bill text reported on May 22, 1998 by House Judiciary Committee, with no provision for this rulemaking). It was only in July 1998 that the House Commerce Committee included a provision to establish periodic rulemaking proceedings to determine whether exemptions to the ban on circumventing access-control TPMs are warranted. *See Digital Millennium Copyright Act of 1998*, H.R. Rep. No. 105-551, pt. 2 at 2-3 (1998) (the "Commerce Committee Report") (reflecting bill text reported on July 22, 1998 by House Judiciary Committee and including rulemaking provision).

The Commerce Committee was explicit that its intention in adding the rulemaking provision was specifically to address concerns about <u>individuals'</u> ability to continue to engage in fair uses of copyrighted works. The Committee stated that it "devoted substantial time and resources to analyzing the implications of [the broad prohibition on the circumvention of access control technologies] on the traditional principle of 'fair use.'" *Id.* at 25. Asserting that it modified the section that became 1201(a)(1) to strike a balance of interests, it emphasized that it considered "it particularly important to ensure that the concept of fair use remains firmly established in the law." *Id.* at 26.

The Committee identified as the "dilemma" surrounding the prohibition on circumvention that digital technology "could be exploited to erode fair use." *Id.* at 25. It twice cited concerns that the prohibition on circumvention "would undermine Congress' long-standing commitment to the concept of fair use." *Id.* at 26; *see also id.* at 35. It cited a letter from Proponent CU expressing concerns that: "These newly-created rights will dramatically diminish public access to information, reducing the ability of researchers, authors, critics, scholars, teachers, students, and consumers to find, to quote for publication and otherwise make fair use of them." *Id.* at 26.

Discussing the prohibition on circumvention, the Committee acknowledged the Internet's "significant positive impact on the access of American students, researchers, consumers, and the public at large to informational resources that help them in their efforts to learn, acquire new skills, broaden their perspectives, entertain themselves, and become more active and informed citizens." *Id.* at 35. But it nevertheless said that it "is concerned that marketplace realities may someday dictate a different outcome, resulting in less access, rather than more, to copyrighted materials that are important to education, scholarship, and other socially vital endeavors." *Id.* at 36 (emphasis added).

Thus, the Committee established the rulemaking proceeding as a "fail-safe" mechanism that would "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." *Id.* at 36; *see also* 144 Cong. Rec. S9935 (daily ed. Sept. 3, 1998) (statement of Sen. Ashcroft) ("In the Commerce Committee's version of the bill, the Secretary of Commerce would have authority to address the concerns of libraries, educational institutions, and others potentially threatened with a denial of access to categories of works in circumstances that otherwise would be lawful today.").

In the bill text reported in conjunction with the subsequent Conference Report, the rulemaking provision was maintained in substance (although certain aspects were amended somewhat). *See Digital Millennium Copyright Act*, H.R. Conf. Rep. No. 105-796, at 5-6 (1998). Members made clear in the floor debate on the Conference Report that fair use rights continued to be the driving force behind the section 1201(a)(1) rulemaking. *See*, *e.g.*, 144 Cong. Rec. H10621 (daily ed. Oct. 12, 1998) ("[T]he conferees maintain the strong fair use provision the Commerce Committee crafted, for the benefit of libraries, universities, and consumers generally.") (statement of Rep. Klug); 144 Cong. Rec. E2166 (Oct. 14, 1998) (describing rulemaking as "ensur[ing] that the legislation's prohibition against circumvention of copy protection technologies in digital works does not thwart the exercise of fair use and other rights by all users") (statement of Rep. Boucher); 144 Cong. Rec. S11887 (daily ed. Oct. 8, 1998) ("I trust that the Librarian of Congress will implement this provision in a way that will ensure information consumers may exercise their centuries-old fair use privilege to continue to gain access to copyrighted works.") (statement of Sen. Ashcroft); *see also United States v. Elcom Ltd.*, 203 F. Supp. 2d 1111, 1119 (N.D. Cal. 2002) ("Through the DMCA, Congress sought to prohibit certain efforts to unlawfully circumvent protective technologies, while at the same time preserving users' rights of fair use."); *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294, 322-23 (S.D.N.Y. 2000) (describing rulemaking as one way by which Congress "struck a balance among the competing interests" of "the exclusive rights of copyright owners" and the principle of fair use), *aff'd sub nom. Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001).

The enumerated factors that Congress requires the Librarian to consider in determining whether a particular exemption from the prohibition on circumvention is appropriate confirm that Congress was primarily concerned with preserving fair use. Section 1201(a)(1)(C) specifies that:

> In conducting such rulemaking, the Librarian shall 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.

17 U.S.C. § 1201(a)(1)(C). Notably, three of these five factors specifically identify considerations that are central to the fair use analysis, which identifies "purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research." *Id.* § 107. Whether a use of a work is commercial is a factor expressly militating <u>against</u> a finding of fair use. *Id.* The Copyright Office has confirmed the fair-use-oriented nature of this inquiry, observing that "the types of uses to which Congress instructed the Librarian to pay particular attention" are "criticism, comment, news reporting, teaching, scholarship, and research as well as the availability for use of works for nonprofit archival, preservation and educational purposes." Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 71 Fed. Reg. 68,472 at 68,478 (Nov. 27, 2006) ("2006 Final Rule").

Nowhere in the House Commerce Committee Report or elsewhere does the legislative history identify the desire to support the business models of commercial enterprises as a factor animating its decision to relax the section 1201(a)(1) anticircumvention ban by establishing a rulemaking proceeding. This is consistent with the traditional notion of fair use, which grants far greater leeway for the noncommercial activities of individuals than for commercial business models. *See, e.g., Princeton Univ. Press v. Michigan Document Servs.* 99 F.3d 1381 (6th Cir. 1996); *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522 (S.D.N.Y 1991); *Los Angeles News Serv. v. Tullo*, 973 F.2d 791 (9th Cir. 1992).

The Copyright Office likewise has recognized that the motivation behind this rulemaking was Congress' desire to preserve fair use of copyrighted works to support education, scholarship, and other nonprofit endeavors. For example, the Copyright Office observed in 2003, 2006 and 2010 that the rulemaking was established in response to concerns that section 1201, in its original form, might undermine Congress' commitment to fair use if developments in the marketplace relating to use of access controls result in less access to copyrighted materials that are important to education, scholarship, and other socially vital endeavors. *See* Recommendation of the Register of Copyrights in RM 2008-8; Rulemaking on Exemptions from Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies at 8 ("2010 Register's Recommendation") ("The Committee expressed concern that marketplace realities may someday dictate a different outcome, resulting in less access, rather than more, to copyrighted materials that are important to education, scholarship, and other socially vital endeavors"); *accord* 2006 Final Rule at 68,472-73 (section 1201 was enacted "in response to concerns that section 1201, in its original form, might undermine Congress' commitment to fair use if developments in the marketplace relating to use of access controls result in less access to copyrighted materials that are important to education, scholarship, and other socially vital endeavors"); Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies: Final Rule, 68 Fed. Reg. 62,011, 62,012 (Oct. 31, 2003) ("2003 Final Rule") (same); Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies: Final Rule, 65 Fed. Reg. 64,556, 64,557 (Oct. 27, 2000) ("2000 Final Rule") ("The Commerce Committee was concerned that section 1201, in its original form, might undermine Congress' commitment to fair use.").

B. The Section 1201(a)(1) Rulemaking Expressly Excludes Those Who Provide Circumvention Services or Technology.

This rulemaking is expressly confined to considering exemptions for the conduct prohibited by section 1201(a)(1) – i.e., the act of circumventing TPMs that control access copyrighted works. It does not, under any circumstances, provide a defense to any other violations of Chapter 12, including violations of sections 1201(a)(2) or 1201(b), which prohibit the performance of circumvention services or trafficking in circumvention products, components or technologies. Section 1201(a)(1)(E) explicitly states that:

> Neither the exception under subparagraph (B) from the applicability of the prohibition contained in subparagraph (A), nor any determination made in a rulemaking conducted under subparagraph (C), may be used as a defense in any action to enforce any provision of this title <u>other than this paragraph</u>.

17 U.S.C. § 1201(a)(1)(E) (emphasis added). To be clear, consistent with the ordinary construction of statutory subdivisions, "this paragraph" means paragraph (1) of subsection (a) of section 1201 – the paragraph that prohibits the act of circumvention. Paragraph (2) of subsection (a) prohibits the performance of circumvention services and trafficking in circumvention technology. *See* Commerce Committee Report at 38 (providing that exemption determination "is inapplicable in any case seeking to enforce any other provision of this legislation, including the manufacture or trafficking in circumvention devices that are prohibited by section 102(a)(2) or 102(b)(1)"); H. Comm. on the Judiciary, 105th Cong., *Section-by-Section Analysis of H.R. 2281 As Passed by the United States House of Representatives on August 4, 1998*, at 8 (Comm. Print 1998) (the "House Manager's Report") ("Subparagraph (E) provides that the exception contained in subparagraph (B) from the application of the prohibition contained in subparagraph (A) may not be used as a defense in any suit brought to enforce any provision of this title other than those contained in paragraph (1). For example, it would not provide a defense to a claim based on the manufacture or sale of devices under paragraph (2) or section 1201(b), or to a copyright infringement claim.").

The Copyright Office has recognized this explicit Congressional limitation on its authority. In its Notice of Inquiry announcing the commencement of this rulemaking proceeding, it observed that the "Librarian of Congress has no authority to limit either of the anti-trafficking provisions contained in subsections 1201(a)(2) or 1201(b)." Exemption to

Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies: Notice of Inquiry, 76 Fed. Reg. 60,398, 60,400 (Sept. 29, 2011) (the "NOI"); *accord* Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies: Notice of Inquiry, 73 Fed. Reg. 58,073, 58,074 (Oct. 6, 2008) (the 2008 "NOI"); *accord* Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies: Notice of Inquiry, 70 Fed. Reg. 57,526, 57,527 (Oct. 3, 2005) (the "2006 NOI") (same); Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies: Notice of Inquiry, 67 Fed. Reg. 63,578, 63,579 (Oct. 15, 2002) (the "2003 NOI") (same).

Indeed, in response to concerns expressed by CTIA in the last triennial proceeding, both the Register and the Librarian emphasized that its Wireless Phone Unlocking Exemption did not, and could not, exempt the provision of unlocking services or trafficking in unlocking technology from the prohibitions of section 1201(a)(2). Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 75 Fed. Reg. 43825, 43826 (July 27, 2010) ("2010 Final Rule") ("the designation of this class offers no safe harbor from liability under section 1201(a)(2) which strictly prohibits an entity from offering a circumvention service."); 2010 Register's Recommendation at 170 ("Nothing in this rulemaking can or is intended to insulate such activities from liability under section 1201(a)(2) to the extent that they fall within its scope.")

It is once again clear that at least some of the Proponents are attempting to use this proceeding to promote the unlawful provision of unlocking services. MetroPCS, in its comments, expressly describes its "MetroFLASH" service. MetroPCS Comments at 9. It complains that "[i]f the exemption is not renewed for an additional three years," potential MetroPCS subscribers will not use the MetroFLASH service. *Id.* MetroPCS attempts to justify its unlawful circumvention service by claiming that when it performs its service, MetroPCS acts "as the customer's agent." *Id.* at 9 n.16. But nothing in section 1201(a)(2) authorizes the performance of circumvention services by "agents" as opposed to vendors or contractors. MetroPCS's attempted subterfuge does not change the fact that MetroPCS is performing the service and, in doing so, is violating section 1201(a)(2).

MetroPCS has, apparently not gotten the clear message – this rulemaking does not insulate it from liability from section 1201(a)(2). Its attempt to shoehorn its unlawful MetroFLASH service into the protections of the Wireless Phone Unlocking Exemption is exemplary of the ways in which the Proponents seek to abuse this proceeding. Such abuse militates against the granting of an unlocking exemption for the upcoming triennial period. At minimum, it provides clear evidence that the Register and the Librarian should reiterate and emphasize the fact that any section 1201(a)(1) exemption will not insulate circumvention services or technologies from liability under section 1201(a)(2). This point should be reiterated and emphasized in any discussion of the Wireless Phone Unlocking Exemption in this proceeding.[9]

IV. THERE IS A PRESUMPTION IN FAVOR OF THE CIRCUMVENTION PROHIBITION, AND PROPONENTS OF AN EXEMPTION HAVE A HEAVY BURDEN TO OVERCOME THAT PRESUMPTION, EVEN WHERE THEY SEEK ONLY TO EXTEND A PRIOR EXEMPTION.

A. There Is A Presumption In Favor of The Circumvention Prohibition and Against Section 1201 Exceptions – Past Decisions Have No Precedential Value.

Congress enacted a general prohibition on the circumvention of access-control technologies in section 1201(a)(1). As the Copyright Office repeatedly has held, "[t]here is a presumption that the section 1201 prohibition will apply to any and all classes of works, including previously exempted classes, unless a new showing is made that an exemption is warranted." NOI at 60,401; *accord* 2008 NOI at 58,075; Commerce Committee Report at 37. It is a bedrock principle in this rulemaking that proponents of an exemption bear the burden of proof to show that an exemption should be granted. *See, e.g.*, 2010 Final Rule at 43,826; 2006 Final Rule at 68,473; 2003 Final Rule at 62,012 (same).[10]

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[9] The Librarian previously rejected proposals that attempted to apply an exemption to section 1201(a)(2). See 2003 Final Rule at 62,018.

[10] The Register has, in the past, made statements that suggest that the burden of proof is on the carriers to demonstrate harm from the exemption. *See* 2010 Register's Recommendation at 154 ("[N]o opponent of the proposal has persuasively argued that the prohibition on circumvention is, in this context, protecting a copyright owner's interest in a work of authorship and that permitting circumvention for the purposes of switching mobile networks poses a serious risk to copyright owners' interests in protecting their works.")

Proponents of an exemption must overcome this presumption every three years, even for previously exempted classes of works. All proposed classes are reviewed *de novo* – the presumption of prohibition remains, and the burden of proof must be met every three years with new evidence for each category of proposed exempted works. *See* 2010 Final Rule at 43,826 ("Proposed classes are reviewed de novo. The existence of a previously designated class creates no presumption or consideration of a new class, but rather the proponent of such a class of works must make a prima facie case in each three–year period"); NOI at 60,401 ("Exemptions are reviewed de novo and prior exemptions will expire unless sufficient new evidence is presented in each rulemaking that the prohibition has or is likely to have an adverse effect on noninfringing uses."); *id.* ("The facts and argument that supported an exemption during any given 3-year period may be insufficient within the context of the marketplace in a different 3-year period."); 2006 Final Rule at 68,478 ("[P]roponents of renewal of an existing exemption must make their case de novo . . . ."); 2003 Final Rule at 62,013 ("Although a similar class was exempted in the first rulemaking, proponents are required to make their case anew every three years."). Thus, there is no such thing as a "renewal" or "extension" under the statute or in past proceedings; classes of works that were previously exempted enjoy no special status.

The foregoing precedent demonstrates unequivocally that the 2010 exemption for cell phone unlocking firmware cannot be used to support continuation of that exemption now, as Proponents attempt to do by characterizing their proposals as a "continuation" of the exemption. *See*, *e.g.*, Comments of RCA, at 3 (Dec. 1, 2011); Comments of MetroPCS Communications, Inc. on the Notice of Inquiry at 1, 2, 22 (discussing "continuing" the exemption); ("MetroPCS Comments"); Comments of Youghiogheny Communications at 3, 5 ("Youghiogheny Comments") (arguing for a "continued exemption").

Proponent RCA makes an even more absurd argument that the Library of Congress and the Copyright Office "should adopt a presumption that the unlocking exemption remains valid beyond the traditional three year period," because, according to RCA, neither section 1201 nor its legislative history "indicate a preference for forcing proponents of the exemption to bear the burden of justifying such relief every three years," RCA Comments at 6-7. In fact, the unambiguous rulings of the Librarian and the Register that no presumption arises from the adoption of previous classes derives <u>directly</u> from express Congressional intent that, "[t]he rulemaking will be repeated on a biennial basis, and on each occasion, the assessment of adverse impacts on particular categories of works is to be determined de novo." Commerce Committee Report at 37 (the original report was for the rulemaking to occur every two years; this was later amended). Moreover, "[t]he regulatory prohibition is presumed to apply to any and all kinds of works, including those as to which a waiver of applicability was previously in effect." *Id*. As the Librarian has observed, "one cannot assume that the elements of the case that was made three years ago remain true now." 2006 Final Rule at 68,478.[11] Accepting RCA's proposal would fly in the face of the purpose of section 1201 that proponents must carry the burden to make a *prima facie* case every three years, and should be squarely rejected.

B. The Rigorous Burden Of Proof on Proponents Requires a Showing Of "Distinct, Verifiable, And Measurable" Adverse Effect on Noninfringing Uses.

The burden of proof to overcome the presumption that all circumvention of access control technologies is prohibited is demanding. It is not the carriers' burden to show harm from the section 1201 exemption.[12] Rather, proponents must demonstrate harm from the application of the applied technological protection measures ("TPMs"). Proponents must show that "the prohibition has or is likely to have <u>a substantial adverse effect</u> on noninfringing uses of a particular class of works." NOI at 60,400 (emphasis added); *accord* Commerce Committee Report at 6 ("The focus of the rulemaking proceeding must remain on whether the prohibition on circumvention of TPMs (such as encryption or scrambling) has caused any substantial adverse impact on the ability of users to make non-infringing uses."); 2010 Final Rule at 43,826 ("[P]roponents must show by a preponderance of the evidence that there has been or is likely to be a substantial adverse effect on noninfringing uses by users of copyrighted works."); 2006

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[11] The Librarian has applied this principle in past proceedings to limit and reject a previously accepted exemption to the prohibition. Specifically, in 2000, the Librarian recognized an exemption for "Compilations consisting of lists of websites blocked by filtering software applications." 2000 Final Rule at 64,574. In 2003, however, the evidence only supported a narrower version of that exemption, and the Librarian restricted the exemption. See 2003 Final Rule at 62,013. In 2006, the Librarian rejected this same exemption outright on the ground that "proponents made no attempt to make any factual showing whatsoever, choosing instead to rest on the record from three years ago and argue that the existing exemption has done no harm, that nothing has changed to suggest the exemption is no longer needed, and that if anything, the use of filtering software is on the rise." 2006 Final Rule at 68,478.

[12] Despite this foundational principle, the Register extensively discussed the carrier's failure to show harm in the 2010 Proceeding. *See* 2010 Register's Recommendation at 150-52. CTIA submits that this discussion was in error and in contravention to the proper standard for burden of proof.

Final Rule at 68,473 (same); 2003 Final Rule at 62,012 (same); Recommendation of the Register of Copyrights in RM 2002-4, at 177 (Oct. 27, 2003) ("2003 Register's Recommendation") ("The role of this rulemaking process is to determine whether noninfringing uses of particular classes of works are adversely affected by the prohibition on circumvention of technological measures that control access to works."); 2000 Final Rule at 64,558 ("The legislative history makes clear that a determination to exempt a class of works from the prohibition on circumvention must be based on a determination that the prohibition has a substantial adverse effect on noninfringing use of that particular class of works.").

As these statements show, the pivotal question is whether the <u>prohibition</u> would create harm to copyright interests; a focus on whether the <u>exemption</u> creates harm to copyright interests (or other interests) is misplaced. *See, e.g.*, NOI at 60,400 ("[F]or a proposed exemption to be considered in this rulemaking, there must be a causal connection between the prohibition in 1201(a)(1) and the adverse effect on noninfringing uses."). This distinction is an important part of the presumption that circumvention is illegal unless an exemption is justified. Therefore, the Register's recommendation in 2010 that, "when a class has been designated for the preceding three-year period, evidence relating to the costs or benefits ensuing from that designation are generally relevant to the assessment of whether the existing class (or some variation thereof) should be redesignated," 2010 Register's Recommendation at 14, is misplaced. Not only does this improperly shift the burden of proof from the proponents to those opposing an exemption, it is also overly broad by including a consideration of non-copyright interests.

The House Commerce Committee has spelled out in its report what the legislation means by "substantial adverse impact," stating that "the rulemaking proceeding should focus on distinct, verifiable and measurable impacts" and "should not be based upon *de minimis* impacts." Commerce Committee Report at 37. The Copyright Office, taking direction from the legislative history, applies this "distinct, verifiable and measurable impacts" standard. *See, e.g.*, NOI at 60, 400 (quoting 2003 Final Rule at 62,013); *accord* 2010 NOI at 58,075; 2006 NOI at 57,528; *see also* 2000 Final Rule at 64,563 ("The legislative history reveals that Congress anticipated that exemptions would be made only in exceptional cases.").

Moreover, "[a]dverse impacts that flow from other sources – including marketplace trends, other technological developments, or changes in the roles of libraries, distributors or other intermediaries – or that are not clearly attributable to such a prohibition, are outside the scope of the rulemaking. So are mere inconveniences, or individual cases, that do not rise to the level of a substantial adverse impact." House Managers' Report at 6; *accord* Commerce Committee Report at 37; *see also, e.g.*, Recommendation of the Register in RM 2005-11 at 69 (Nov. 17, 2006) ("2006 Register's Recommendation") (rejecting various proposed exemptions for space shifting because "in most cases it was unclear whether the commenters were referring to access controls or copy controls, or simply to incompatibility of formats"); *id*. at 84-85 (rejecting a proposed exemption for all works available for purchase for more than one year because it "appears to be simply a statement of the commenter's policy view regarding the scope and duration of copyright"). The rigorous nature of this inquiry is consistent with the general principle that exceptions to statutory rules should be construed narrowly. *See Tasini v. N.Y. Times Co.*, 206 F.3d 161, 168 (2d Cir. 2000), *aff'd*, *N.Y. Times Co. v. Tasini*, 533 U.S. 483 (2001); *accord* 2000 Final Rule at 64,558.

Importantly, <u>beneficial impacts</u> of prohibiting circumvention of a particular TPM, as well as adverse impacts, must be considered in determining whether an exemption is appropriate:

> In assessing the impact of the implementation of technological measures, and of the law against their circumvention, the rulemaking proceedings should consider the positive as well as the adverse effects of these technologies on the availability of copyrighted materials. The technological measures – such as encryption, scrambling and electronic envelopes – that this bill protects can be deployed, not only to prevent piracy and other economically harmful unauthorized uses of copyrighted materials, but also to support new ways of disseminating copyrighted materials to users, and to safeguard the availability of legitimate uses of those materials by individuals. These technological measures may make more works more widely available, and the process of obtaining permissions easier.

House Manager's Report at 6.

In sum, there must be "sufficient evidence" to support an exemption in light of the overall situation. NOI at 60,400; *accord* 2010 NOI at 58,075 (same); 2006 NOI at 57,528 (same). Isolated or anecdotal evidence is not sufficient, nor is evidence of convenience or efficiency. *See* NOI at 60,400. Moreover, evidence must be more than rhetoric, more than good policy, and more than conjecture. *See* 2010 Register's Recommendation at 262 ("While the Register's recommendations in previous rulemakings made clear that the Register understands and accepts the legal and policy reasons for such an exemption, under the constraints established by Congress in this rulemaking proceeding, the Register cannot recommend designation of the class in the absence of a factual record that supports the need for the exemption"); 2006 Register's Recommendation at 38 ("[P]roponents must do more than present legal and policy arguments why the exemption is desirable."). "If the rulemaking has produced insufficient evidence to determine whether there have been adverse impacts with respect to particular classes of copyrighted materials, the circumvention prohibition should go into effect with respect to those classes." Commerce Committee Report at 38.

Harm caused by the prohibition can be shown in only two ways: (1) the proponent must show sufficient evidence – preferably "based on first-hand knowledge" – that there currently is "actual harm" to the copyright users' ability to make noninfringing use of copyrighted works, or (2) he must show that such harm is "likely to occur in the ensuing 3-year period." NOI at 60,400 ("Actual instances of verifiable problems occurring in the marketplace are generally necessary in order to prove actual harm. The most compelling cases of actual harm will be based on firsthand knowledge of such problems."); 2006 NOI at 58,075, 57,528 (same); 17 U.S.C. § 1201(a)(1)(B) (providing for exemption for copyright users who "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 particular class of copyrighted work).

Proposed exemptions have been rejected because the proposals were not accompanied by sufficiently specific evidence of harm. In the 2010 proceeding, for example, one proponent proposed to allow the circumvention of technological measures that depend on the continued availability of authenticating servers (or ''DRM servers'') when such authenticating servers cease functioning because the store fails or for other reasons. The Copyright Office rejected this proposal, finding that "there is no evidence that such a loss of rights has actually occurred thus far" and therefore "no such instances of adverse effects have been shown." 2010 Final Rule at 43,835; s*ee also* 2006 Register's Recommendation at 76 (because proponent "offered no actual examples," his proposal was rejected).

In this case, none of the Proponents attempted to show that they have <u>actually</u> been harmed by the prohibition on circumvention.[13] Nor have any Proponents shown actual harm by the differences between the current exemption and the expansions that they seek. In the absence of any proof of actual harm, Proponents must instead demonstrate that harm is "likely" to occur in the next three years. Exemptions based on "likely" adverse impacts should be made "<u>only in extraordinary circumstances in which the evidence</u> of likelihood of future adverse impact during that time period <u>is highly specific, strong, and persuasive</u>. Otherwise, the prohibition would be unduly undermined." House Managers' Report at 6 (emphasis added); *cf.* 2010 NOI at 58,075 (citing same).

Moreover, the Librarian cannot create an exemption based on "speculation alone" or "[c]onjecture alone." NOI at 60,400. Rather, the exemption proponent must demonstrate with facts and evidence – not with assumptions or predictions – that "the expected adverse effect is more likely than other possible outcomes." *Id*. In the past, proposed exemptions have been rejected for the very reason that there was no firm evidence to show that the predicted consequences would actually ensue. *See, e.g.*, 2003 Register's Recommendation at 36-37 (rejecting a formulation of the exemption for software controlled by dongles where the evidence showed not that "the technological measure was actually preventing access to the computer program, but rather that, based on experiences in the past, one might expect that it would prevent access at some time in the future"). As shown below, none of the proponents have come remotely close to demonstrating the requisite "likely" adverse impact on noninfringing uses sufficient to justify their requested exemption.

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[13] With respect to conduct by individual users in a noncommercial context, Proponents could not make such a showing, as an exemption for such conduct has been in place for the past three years; "the case [can] not be made that users of an exempted class of works are currently adversely affected by the prohibition, because the prohibition does not currently apply to that class of works." 2006 Register's Recommendation at 40 n.113. In an analogous situation, prior to the 2000 proceeding, the prohibition on circumvention was not yet effective, so no commenter could demonstrate actual harm; thus, the Register was not surprised that the number of justified exemptions was so small. 2000 Final Rule at 64,563. The section 1201(a)(1) prohibition on circumvention did not become effective until two years after it was enacted by Congress in October 1998. *See* 17 U.S.C. § 1201(a)(1).

C. The Register and the Librarian Failed To Apply this Rigorous Burden of Proof in the 2010 Rulemaking, So Their Adoption of the 2010 Unlocking Exemption Is Entitled to No Weight.

The Register's and the Librarian's findings relating to the unlocking exemption granted by the 2010 rulemaking did not comply with the well-established and demanding burden of proof discussed in Part IV.B. The decision to grant an unlocking exemption thus rested on a legally insufficient evidentiary foundation and was arbitrary, capricious and contrary to law. It therefore is invalid and should be accorded no precedential weight (assuming *arguendo* that such weight is ever appropriate in light of the applicable *de novo* review standard).

There are numerous examples of the Register's and Librarian's failure to apply the mandatory burden of proof. For example, with respect to the determination of whether the ability to make noninfringing uses of copyrighted works has been adversely affected by a prohibition against unlocking, for example, the Register asserted that "there is more evidence in support of designating a class of works now than there was in 2006." 2010 Register's Recommendation at 116 & n. 397. In support of that finding, however, the Register only cited to (1) three anecdotal examples of purported individual cell phone unlocking, (2) a person engaging in an unlocking circumvention service, and (3) online surveys initiated by the Electronic Frontier Foundation allegedly showing that 632 individuals support an unlocking exemption. *Id.* 116 n.397. But (1) the Register has already held that "[t]he identification of isolated or anecdotal problems will be generally insufficient to warrant an exemption"; (2) circumvention services remain unlawful under 17 U.S.C. § 1201(a)(2) and are irrelevant to this section 1201(a)(1) rulemaking; and (c) surveys expressing a general desire for an exemption do not constitute evidence of adverse impact.

The Librarian, for his part, cites no evidence at all for his assertion that the proponents of the class have presented a *prima facie* case that the prohibition on circumvention has had an adverse effect on noninfringing uses of firmware on wireless telephone software. *See* 2010 Final Rule at 43,830. The Librarian also claimed that "Proponents have shown that mobile phone locks prevent consumers from legally accessing alternative wireless networks with the phone of their choice." *Id.* But he again cites nothing in support of that statement and gives no explanation of why consumers are entitled to circumvent for the purpose of using "the phone of their choice," when other phones are available. In other words, the evidence in the record cited by the Register and the Librarian – where any such evidence was cited at all – did not come close to meeting the applicable proof standard requiring "highly specific, strong and persuasive" evidence that the prohibition on circumvention would cause a substantial adverse effect.

The Register also found that "if a consumer wishes to switch wireless providers, but keep her phone, she would have to engage in circumventing activity" and that "[t]his situation would actually exist today, but for the designation of the class of works in the current regulations, and is likely to occur in the next three years unless a similar class is designated." 2010 Register's Recommendation at 116. She further asserted that "the record evidence demonstrates that there are no real alternatives for the relief an exemption would provide." *Id.* at 154. The Register, however, cited absolutely nothing in support of these statements. Indeed, the statements contradicted the extensive evidence in that rulemaking that unlocked phones are widely available and that carriers unlock phones in appropriate circumstances. *See* , *e.g.*, Comments of CTIA – The Wireless Association® in RM 2008-8, Part IV.E. (Feb. 2, 2009). Thus, these result-driven findings again rested on no cited evidentiary basis at all from the proponents and thus allowed proponents improperly to abrogate their responsibility to satisfy the demanding burden of proof applicable in this rulemaking.

The Register and the Librarian also improperly shifted the applicable burden of proof from the proponents of the unlocking exemption to its opponents in finding that, for purposes of 17 U.S.C. §117, "proponents of the proposed class have made a *prima facie* case that owners of mobile phones are also the owners of the copies of the software that are fixed on those phones" as opposed to mere "licensees." 2010 Register's Recommendation at 132. The Register, for example, acknowledged that the agreements and evidence that were submitted supported the conclusion that owners of the phones were not owners of the software on the phones. Specifically, she emphasized the importance of the agreements under which the phones are sold, discussed agreements and other substantial evidence submitted by the opponents of the unlocking exemption that she said support a possible conclusion that the phones' owners are mere licensees of the software, and observed that other agreements are not in the record. *Id.* at 128-32. Indeed, she discussed no countervailing evidence at all from the proponents of the exemption that would support a contrary conclusion. This failure of the proponents to prove, by reference to agreements, that the phones' owners own the software should have been fatal to their request for an exemption. Instead, the Register inexplicably found, without any supporting evidentiary citations, that the proponents had met their burden of proof on this issue. *Id.* at 132.

It is even more apparent from the Librarian's determination that both the Register and the Librarian improperly shifted the burden of proof from the proponent of the exemption to its opponents. The Librarian expressly acknowledged that "the wireless networks have made a case that many mobile phone owners may not own the computer program copies because the wireless network's contract with the consumer retains ownership of the copies." 2010 Final Rule at 43,831. But instead of pointing out the failure of the proponents of the unlocking exemption to submit any evidence on this issue – which should have led to the conclusion that the proponents had not met their burden of proof – it noted the Register's finding "that the proponents of the class have made a *prima facie* case on this issue." *Id.* Ironically, it faulted the wireless network opponents for the state of the evidentiary record, stating that "they have not presented evidence that this [phone owners' lack of software ownership] is always the case" and that "[t]he record therefore leads to the conclusion that a substantial portion of mobile phone owners also own the copies of the software on their phones." *Id.* This legally improper burden-shifting again led the Register and the Librarian to reach an invalid conclusion not supported by a legally sufficient evidentiary basis.

The numerous legally insufficient findings on which the Register's and the Librarian's decision to grant an unlocking exemption was grounded –which resulted from their failure to apply the rigorous burden of proof applicable to proponents of an exemption in this rulemaking – render the decision to grant the unlocking exemption invalid and contrary to law. That decision should be given no precedential force in this proceeding.

V. THE PROPONENTS HAVE FAILED TO MEET THEIR BURDEN OF PROVING THE NEED FOR ANY CELL PHONE UNLOCKING EXEMPTION.

A. Proponents Have Failed To Demonstrate That the Ability To Make Non-Infringing Uses of a Class of Works Is, or Is Likely To Be, Adversely Impacted by a Prohibition Against Unlocking.

Proponents have not remotely met their burden of proof to show that the ability to make non-infringing uses of copyrighted operating system firmware and software is or is likely to be adversely impacted by a prohibition against unlocking cell phones and thus have not established that an unlocking exemption should be granted. While Proponents' comments are rife with speculative, conclusory, and unsupported assertions that such adverse impact will occur absent the exemption, nowhere do they present the type of "highly specific, strong, and persuasive" evidence of likely adverse impact that Congress has made clear is required in order to establish this essential prerequisite to obtaining an exemption. *See supra* Part IV.B; House Managers' Report at 6. Although they try to compensate for this lack of proof by pointing to irrelevant assertions regarding findings in prior proceedings, competitive and environmental considerations, consumer inconvenience, and the like, these arguments are similarly unhelpful in establishing adverse impact. Nor could they establish such adverse impact given the carriers' liberal unlocking policies and the widespread availability of inexpensive unlocked phones. Thus, Proponents have failed to establish adverse impact and thus have failed to demonstrate entitlement to an unlocking exemption.

As an initial matter, Proponents cannot simply rely on the outcome of prior rulemakings, or evidence adduced in those rulemakings, to establish adverse impact. *See* 2006 Final Rule at 68,478 (rejecting exemption because "proponents made no attempt to make any factual showing whatsoever, choosing instead to rest on the record from three years ago and argue that the existing exemption has done no harm"); 2006 Register's Recommendation at 68. Rather, they must independently adduce evidence in <u>this</u> proceeding of such impact. Thus, RCA's attempt to establish adverse impact based on "the same reasons articulated by the Library of Congress and the Copyright Office in 2010" is without merit. *See* RCA Comments at 3. MetroPCS's similar reliance on the prior proceeding is equally misplaced. *See* MetroPCS Comments at 2-3, 19 (relying on prior Register findings to support grant of unlocking exemption in this proceeding).

Instead of presenting evidence of real-life examples or studies regarding the impact of the prohibition against cell phone unlocking, Proponents make numerous, wholly unsupported assertions regarding the alleged adverse impact from a prohibition against cell phone unlocking. For example:

- Youghiogheny and RCA simply assume, without evidence, that such adverse impact will occur. Youghiogheny Comments at 5; RCA Comments at 5.

- RCA and MetroPCS attempt to predict carrier conduct, without any supporting evidence, by suggesting that the carriers will inhibit unlocking in the absence of an exemption. *See* RCA Comments at 6; Metro PCS Comments at 2-3, 19-20. This speculation is contradicted by the widespread availability of unlocked phones and the carriers' unlocking policies.

- MetroPCS also improperly attempts to shift the burden of proof to opponents of an unlocking exemption by arguing that "[t]he possibility that certain carriers may unlock devices of customers who have fulfilled their contracts does not eliminate the need for the exemption," without ever showing that carriers would resist unlocking or that customers would actually be inhibited from using their cell phones' operating software if no unlocking exemption were in place.

- CU does not even attempt to disguise its lack of proof, pointing to the "intuitive injustice" that allegedly will occur absent an exemption. Comments of CU at 25 ("CU Comments").

The common thread running through each of these assertions is their complete lack of evidence – much less the type of "highly specific, strong, and persuasive" evidence of "distinct, verifiable, and measurable impacts" from the prohibition – that is necessary for those claims to support a finding of adverse impact. Such "[c]onjecture alone is insufficient to support a finding of 'likely' adverse effect." 2010 NOI at 58,075.

In the absence of actual evidence that individuals' ability to make fair or non-infringing use of cell phone operating firmware and software will be, or is likely to be, adversely impacted by the circumvention prohibition – which is the only "adverse impact" inquiry relevant to this rulemaking – Proponents instead point to an array of other alleged "adverse" effects to establish this critical prerequisite. For example:

- CU asserts that certain adverse legal consequences will flow from the lack of an exemption (CU Comments at 24);

- Youghiogheny points to purported adverse competitive and environmental effects (Youghiogheny Comments at 5); and

- MetroPCS complains about inconvenience to consumers from the supposed need to familiarize themselves with new cell phones and functions (MetroPCS Comments at 21).

But none of these alleged impacts – even if true – is the type of adverse impact that Congress commanded to be considered in the exemption analysis. As such, each of the assertions is irrelevant to the "adverse impact" question.

Above and beyond Proponents' failure to show the statutorily relevant "adverse impact" through actual evidence, the carriers' phone unlocking policies and widespread availability of inexpensive unlocked cell phone undermines any claim that such adverse impact will occur in the absence of an unlocking exemption. *See supra* Part II.B. (discussing carrier unlocking policies). Tellingly, even Youghiogheny admits that several carriers "have reportedly started allowing customers to obtain access to their device operating programs in order to switch a device from one network to another." Youghiogheny Comments at 4. While it goes on to assert that the "process is needlessly tedious" and that "'most" consumers still cannot use their device on another carrier network without circumventing a carrier lock," *id.* at 4, these claims are once again completely unsupported by actual proof.

Proponents have provided absolutely no evidence that absent the requested exemption anyone will suffer a "distinct, verifiable, and measurable adverse effect on noninfringing uses," particularly in light of the new evidence in this proceeding of current market conditions, demonstrating the widespread availability of unlocked phones and carrier unlocking. If anything, those conditions indicate that such adverse impact is unlikely. There is simply no basis for finding that Proponents have met their rigorous burden of proof of establishing actual or likely adverse impact if no unlocking exemption is granted.

B. The Proponents Have Failed To Show That They Seek To Promote Fair Use or any Other Noninfringing Use of Copyrighted Works.

1. None of the Proponents Even Attempted To Justify Their Unlocking Activities as "Fair Use," The Protection of Which Was Congress' Main Goal In Creating this Proceeding.

As discussed above, this rulemaking proceeding has a narrow purpose and focus – to address the concern that individuals be permitted to circumvent access control technologies that were depriving them of the ability to engage in conduct at the core of the fair use doctrine. Not one of the Proponents even attempted to justify their proposed unlocking activities as fair use under the Copyright Act. The only Proponent to even mention "fair use" is MetroPCS, which makes a conclusory statement that "Customers who choose to unlock their devices to obtain service on competing wireless networks… are making a noninfringing, fair use of copyrighted works that they rightfully own." Comments of MetroPCS at 15. MetroPCS makes no attempt to analyze the statutory fair use factors or support in any way this bald conclusion. This failure by the Proponents to show that their proposed exemptions fall within the ambit of this proceeding is telling, and shows that their main concern is not consumers' right to fair use access of protected works, but rather the maintenance of a particular business model.

2. Either The Works Protected By The Technological Protections Are Subject To Copyright Protection, Or the Exemption Is Not Properly The Subject of This Proceeding.

Proponent CU argues that the aspect of a mobile device computer program that enables devices to connect to communications networks "may not even be protectable" under copyright law. CU Comments at 8, 9. This argument fails to get out of the starting gate.

As an initial matter, CU offers no evidence that the protected firmware or software is not protected by copyright. It cites to no particular firmware or software or to any holding that such firmware or software is not copyrightable. Indeed, CU implicitly admits that it is engaging in rank speculation, as it says only that "a court might find that this feature of mobile device computer programs is not protectable," but cites to no such finding. *Id.* at 10. To the contrary, of course, the underlying firmware or software is a computer program, and the courts have long made clear that computer programs, including "systems" such as operating systems, are *prima facie* copyrightable subject matter. *See Apple v. Franklin*, 714 F.2d 1240 (3rd Cir. 1983) (holding that operating systems are copyrightable).

Moreover, CU concedes that "to unlock a mobile device, a consumer must often circumvent a protection measure that controls access to the entire mobile device operating system and/or other protectable content, such as wallpapers and ringtones." CU Comments at 10. Thus, CU admits that the TPMs it seeks to circumvent protect copyrighted content.

In any event, it is not the Librarian's responsibility to determine whether particular TPMs fall within the scope of the statute. Rather, this rulemaking contemplates that the Librarian must assume that a particular access-control TPM falls within section 1201(a)(1) and consider whether an exemption to the ban on circumventing that TPM is appropriate. The proper forum for consideration of whether a TPM is one covered by the section 1201 prohibitions is the courts. There are a variety of measures used to lock phones, from simple unlock codes, to proprietary billing and customer management software, complex measures embedded in the operating system, and boot sector firmware, and the applicability of section 1201 to each is likely to be a mixed question of law and fact that is different from the question presented in this rulemaking. The courts are well-suited for such inquiries.

Numerous courts already have made precisely such determinations concerning the applicability of section 1201 to particular TPMs in individual cases. *See, e.g., Pearl Invs. LLC v. Standard I/O Inc.*, 257 F. Supp. 2d 326, 350 (D. Me. 2003) (rejecting claim that the virtual private network at issue "should not be considered a 'technological measure'" as that term is defined in 17 U.S.C. § 1201); *Healthcare Advocates, Inc. v. Harding, Earley, Follmer & Frailey*, 497 F. Supp. 2d 627, 643 (E.D. Pa. 2007) ("[I]n this situation, the robots.txt file qualifies as a technological measure effectively controlling access to the archived copyrighted images of Healthcare Advocates."); *Sony Computer Entm't Am., Inc. v. Divineo, Inc.*, 457 F. Supp. 2d 957, 965 (N.D. Cal. 2006) (rejecting defendants' assertion "that the PlayStation authentication process is not a 'technological measure' within the meaning of the DMCA"); *321 Studios v. Metro Goldwyn Mayer Studios, Inc.*, 307 F. Supp. 2d 1085, 1095 (N.D. Cal. 2004) ("It is evident to this Court, as it has been to previous courts, that CSS is a technological measure that both effectively controls access to DVDs and effectively protects the right of a copyright holder."); *Universal City Studios, Inc.*, 111 F. Supp. 2d at 317-18 (rejecting defendants' contention that CSS encryption system "is not protected under this branch of the statute at all" and finding that "under the express terms of the statute, CSS 'effectively controls access' to copyrighted DVD movies" and "does so, within the meaning of the statute, whether or not it is a strong means of protection"). Proponents' attempt to expand the Register's and the Librarian's role – which is already complicated enough to begin with in considering exemptions – is inappropriate.

Of course, if CU's suggestion that the protected work may not be copyrightable subject matter were accurate, then there would be no need for a section 1201 exemption, because section 1201(a)(1) would not apply at all and CU would not be here seeking one. If the aspect of software for which Proponent CU seeks an exemption is not a work protected by copyright, then the Copyright Office has no authority to grant the exemption from the first instance. *See* 2010 Register's Recommendation at 239 n. 816 (rejecting proposed class of exemption because, "The statute is clear that the subject matter of this rulemaking proceeding in that exemptions is confined to 'noninfringing uses under this title of a particular class of copyrighted works.' 17 U.S.C. § 1201(a)(1)(C) (emphasis added)).

Finally, CU's argument that the carriers can use separate technological prevention measures to protect copyrightable content is not a valid basis to grant an exemption. CU Comments at 10 n.16. The Register's comment to this effect in the 2010 rulemaking was contrary to law. *See* Register's Recommendation at 151-52. Nothing in section 1201(a)(1) allows the Librarian or the Register to favor one type of technological protection measure over another, or to require copyright owners and consumers to incur additional costs to implement multiple or different types of technological protection measure than the measures that they choose to implement. Section 1201(a)(1) requires the Register and the Librarian to consider the measures at issue and not to speculate about alternatives that copyright owners might implement.

3. Restrictive Licenses Governing Copyrighted Software Do Not Constitute Copyright Misuse.

CU proposes a new legal justification for why circumvention of a cell phone lock is a "noninfringing use" – it argues that the copyrights on the software programs are unenforceable because the end user licenses for the software constitute "copyright misuse." The cases cited by CU are easily distinguishable and do not support this argument.

A doctrine of copyright misuse was recognized by the Fourth Circuit in *Lasercomb v. Reynolds*, 911 F.2d 970 (4th Cir. 1990). In that case, the software license agreement prevented licensees from creating any of their *own* competitive software for ninety-nine years – essentially, a non-compete agreement forcing the licensee to withdraw utilization of the creative abilities of all its officers, directors and employees in the area of CAD/CAM die-making software from the public for a period longer than the copyright itself. The court deemed this type of expansive non-compete restriction to be anti-competitive, because the license amounted to a non-competition agreement for development of noninfringing and non-derivative products.

The Ninth Circuit has consistently held that the copyright misuse doctrine applies only in cases where the license prevents the licensee from independent development of its own products or use of a competitor's noninfringing products – regardless of whether the copyrighted work is implicated. In *Apple, Inc. v. Psystar Corp.,* 658 F.3d 1150 (9th Cir. 2011) (cited in CU Comments at 12 & n.25), the closest and most recent case cited by CU, Ninth Circuit rejected a defense of copyright misuse against a claim remarkably similar to that made here by CU. The court held that a licensing agreement that requires that licensees run their licensed software only on the plaintiff's computers does not constitute misuse. The court noted that the Ninth Circuit has applied the copyright misuse doctrine "sparingly" and only in one instance where the copyright licensor "prevented the licensee from using any other competing product" regardless of whether its copyrighted work was involved. *Id.* at 1157; *accord A&M Records v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001), the Court of Appeals held that a copyright owner's refusal to license copyrights does not constitute misuse; *Triad Sys. Corp. v. Se. Express Co.,* 64 F.3d 1330 (9th Cir. 1995) (cited by CU at 12 n. 25), (rejecting a copyright misuse defense where the copyright license did not prevent the licensee from developing competing software); *Practice Mgmt. Info. Corp. v. Am. Med. Assoc.*, 121 F.3d 516, 521 (9th Cir. 1997) (cited by CU at 11 n.24) (holding that medical coding system licensed on the condition that the licensee refrain from using *any other competing coding system* violated the public policy embodied in the grant of a copyright and applied the defense). By analogy to *Psystar,* a TPM that requires wireless phone software to run only on the selling carrier's network does not constitute misuse.

The cases from other Circuits cited by CU in support of its argument follow the same principles – the copyright misuse doctrine applies only where a license prevents the licensee from competing with non-derivative and noninfringing products – not where the license places limitations on what the licensee may do with the licensed, copyrighted work. *See DSC Commc'ns Corp. v. DGI Technologies, Inc.*, 81 F.3d 597 (5th Cir.1996) (cited by CU at 11 n.24) (holding the misuse defense applies when a copyright holder attempts to leverage its legal monopoly over a particular expression into patent-like powers over a *general idea* through a broad restrictive covenant); *Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc*., 342 F.3d 191, 206 (3d Cir. 2003) (cited by CU at 12 n.24)(rejecting application of the copyright misuse doctrine because a condition in a license for use of a licensed movie trailer restricting criticism of Disney or the entertainment industry did not "interfere with creative expression to such a degree that they affect in any significant way the policy interest in increasing the store of creative activity," because nothing prevented licensees or the public in general from criticizing Disney else where, including web sites that do not display Disney movie trailers).

The teaching from this line of cases is that the copyright misuse doctrine – to the extent that it persists and applies beyond a suit for copyright infringement, *see infra* – is limited to situations where a license forbids the licensee from independent development of its own products or use of a competitor's noninfringing products. It does <u>not</u> apply in cases where, as here, a licensee seeks to modify and use the licensor's protected work in a way proscribed by the license. Nothing in the copyright misuse doctrine can be used to force a licensor to in essence license its copyrighted work for a competitive use.

In addition, CU has failed to make any showing that any license of a carrier includes this type of anti-competitive prohibitions in its licenses. In fact, CU attaches no evidence of the carrier's licenses whatsoever – it refers only to an argument made by Virgin Mobile in the last section 1201 proceeding regarding a license then in place. As CTIA has demonstrated herein, however, the licenses of the four major carriers (comprising 90% of the market) <u>do not</u> limit use of their phones and the software contained therein to their own services under many conditions – customers may cancel their contracts and pay an early termination fee to allow the carrier to recoup its subsidy of the equipment. Carriers provide unlocking codes for many phones that are locked under many conditions. *See supra* Part IV.B. *supra.*

Finally, CU acknowledges that there is no precedent for finding an unauthorized use of a copyrighted work noninfringing under the section 1201 analysis, but urges the Register to treat them identically as a matter of policy. However, even good policy does not support an exemption under section 1201, and the Register must reject this argument. *See id.*

4. Section 117 Does Not Authorize the Circumvention Advanced by Proponents.

Proponents CU and Metro PCS invoke section 117 of the Copyright Act to argue that unauthorized unlocking activities are not infringement. MetroPCS Comments at 16-17; CU Comments at 13. Section 117 does not protect these activities for multiple reasons.

a. The Owners Of Cell Phones Are Not The Owners Of The Computer Programs On Those Phones Pursuant To Section 117.

CU and MetroPCS argue that unlocking and re-flashing a cellular phone without the permission of the copyright owner are permitted under Section 117(a) of the Copyright Act. However, Section 117 applies only to an "owner of a copy of a computer program."[14] The Register in the 2010 proceeding stated that she was unable to "determine whether most mobile phone owners are also the owners of the copies of the computer programs on their mobile phones." 2010 Final Rule at 43,831. The Register then inexplicably concluded – without any citation or discussion of the record and in complete contravention of the previous statement – that the proponents had made a *prima facie* case that mobile phone owners are the owners of those copies. This statement turned the applicable burden of proof on its head and was invalid as a matter of law.

In any event, Proponents present no evidence that the present-day customer agreements vest ownership of the copies of copyright-protected software in the owner of a wireless phone. The operative precedent indicates mobile phone owners are licensees rather than owners of the computer programs on their phones. Not every transfer of possession of a copy transfers title. In *Vernor v. Autodesk, Inc.,* 621 F.3d 1102, 1108-09 (9th Cir. 2010), *cert denied,* 132 S.Ct. 105 (2011), the Ninth Circuit Court of Appeals held that, "that a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions." Neither MetroPCS nor CU has made any attempt to show whether this stringent standard has or has not been satisfied.

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[14] When Congress first enacted this provision in 1980, it made clear that it was merely implementing the recommendations of the Final Report of the National Commission on New Technological Uses of Copyrighted Works" ("CONTU Report"). In fact, the relevant legislative history consists only of a short paragraph in a committee report referencing CONTU's recommendations, *see* H.R. Rep. No. 1307, 96th Cong., 2d Sess., pt. 1, at 23 (1980) (observing that section 117 "embodies the recommendations of [the CONTU] with respect to clarifying the law of copyright of computer software"); *see Sega Enters. v. Accolade, Inc.*, 977 F.2d 1510, 1520 n.5 (9th Cir. 1992) ("Subsequent Congresses, the courts, and commentators have regarded the CONTU Report as the authoritative guide to Congressional intent."). Section 117 strays from the recommendations only in that it grants "owners," as opposed to "rightful possessors," a limited right to copy and adapt their software.

In fact, the Customer Agreements of the carriers confirm that the software on the mobile handsets is licensed – not sold – to the owner of the phone. For example, AT&T's agreement explicitly provides that:

> The software, interfaces, documentation, data, and content provided for your equipment as may be updated, downloaded, or replaced by feature enhancements, software updates, system restore software or data generated or provided subsequently by AT&T (hereinafter "Software") is licensed, not sold, to you by AT&T and/or its licensors/suppliers for use only on your equipment. …. You are not permitted to use the Software in any manner not authorized by this License. You may not (and you agree not to enable others to) copy, decompile, reverse engineer, disassemble, reproduce, attempt to derive the source code of, decrypt, modify, defeat protective mechanisms, combine with other software, or create derivative works of the Software or any portion thereof. You may not rent, lease, lend, sell, redistribute, transfer or sublicense the Software or any portion thereof. You agree the Software contains proprietary content and information owned by AT&T and/or its licensors/suppliers. AT&T and its licensors/suppliers reserve the right to change, suspend, terminate, remove, impose limits on the use or access to, or disable access to, the Software at any time without notice and will have no liability for doing so.

AT&T Customer Agreement, Section 4.4. T-Mobile's agreement similarly provides that all materials are licensed:

> Intellectual Property. You agree not to infringe, misappropriate, dilute or otherwise violate the intellectual property rights of T-Mobile or any third party. Except for a limited license to use the Services, your purchase of Services and T-Mobile Devices does not grant you any license to copy, modify, reverse engineer, download, redistribute, or resell the intellectual property of T-Mobile or others related to the Services and T-Mobile Devices; this intellectual property may be used only with T-Mobile Service unless expressly authorized by T-Mobile.

T-Mobile Terms & Conditions, Section 20 (<t-mobile.com/Templates/Popup.aspx?Passet =Ftr_Ftr_TermsAndConditions&print=true>)(last visited Feb. 8, 2011)

The Verizon Wireless agreement makes clear that the software, which is owned by the company, also may be modified by the company at will:

> Please be aware that we may change your wireless device's software, applications or programming remotely, without notice. This could affect your stored data, or how you've programmed or use your wireless device. By activating Service that uses a SIM (Subscriber Identity Module) card, you agree we own the intellectual property and software in the SIM card, that we may change the software or other

> data in the SIM card remotely and without notice, and we may utilize any capacity in the SIM card for administrative, network, business and/or commercial purposes.

Verizon Wireless Customer Agreement, "My Wireless Device," (<verizonwireless.com/ customer-agreement.shtml>) (last visited Feb. 8, 2012). Sprint's agreement also confirms that the wireless customer does not own the software loaded onto the handset:

> If Sprint provides you software as part of the Service and there are not software license terms provided with the software (by Sprint or by a third party), then Sprint grants you a limited, revocable, non-exclusive, non-transferable license to use the software to access the Services for your own individual use. You will not sell, resell, transfer, copy, translate, publish, create derivative works of, make any commercial use of, modify, reverse engineer, decompile, or disassemble the software. Sprint may revoke this license at any time.

Sprint Subscriber Agreement, *Software* License (<manage.sprintpcs.com/output/en_US/ manage/MyPhoneandPlan/ChangePlans/popLegalTermsPrivacy.htm> (last visited Feb. 8, 2012)).

The agreements from the four nationwide carriers confirm that the user is granted a license to, not ownership of, the software; the license significantly restricts the handset owner's ability to transfer the software; and imposes notable use" restrictions – the hallmarks of a software license. Accordingly, section 117 is not satisfied.

b. Unlocking Is Not An "Essential Step" In The Operation Of A Locked Phone.

Section 117 permits adaptation or copying of software only as an "essential step in the utilization of the computer program… [and] in no other manner." 17 U.S.C. § 117(a)(1). Here, wireless handset users already are successfully using the firmware "in conjunction with a machine" – *i.e.*, their handsets – with their current service provider and with authorized software, and the handset is operating as intended. Under the plain terms of the statute, circumvention is not an "essential step in the utilization of" that firmware "in conjunction with a machine." *Apple Computer Inc. v. Formula Int'l, Inc.*, 594 F. Supp. 617, 620, 622 (C.D. Cal. 1984) (providing that " '[e]ssential' means indispensable and necessary," not merely "convenient"); *Madison River Mgt. Co.*, 387 F. Supp. 2d. at 537-38 (finding that copying to help user "more effectively utilize" software "as a matter of logic and of definition forecloses it from being necessary or absolutely essential" and that thus "the exception contained in § 117 of the Copyright Act does not apply").

The legislative history of the provision and the caselaw interpreting it make clear that the "essential step" standard concerns the operation of the software on the particular machines for which the software was provided. Congress recognized that a computer program cannot be used unless it is first copied into a computer's memory, and thus provided the § 117(1) exception to permit copying for this essential purpose. *See* CONTU Report at 31; *accord Micro-Sparc, Inc. v. Amtype Corp.*, 592 F. Supp. 33, 35 (D. Mass. 1984) ("The permission to copy stated in subsection (1) [of section 117(a)] is strictly limited to inputting programs."); *Sony Computer Entm't, Inc. v. Connectix Corp.*, 203 F.3d 596, 600 n.1 (9th Cir. 2000) (observing that section 117 exemption exists because "[a]ny purchaser of a copyrighted software program must copy the program into the memory of a computer in order to make any use at all of the program"); *In re Indep. Servs. Orgs. Antitrust Lit.*, 964 F. Supp. 1469, 1475 (D. Kan. 1997) ("[T]he only copying by [defendant] which could be termed an 'essential step to use' is [defendant's] reproduction of diagnostic software from a lawfully obtained disk into the RAM of the copier or printer."). Unlocking strays far afield of this limited scope of copying protected by section 117.

In her 2010 Recommendation, the Register did not discuss the cases cited by CTIA, and instead relied on a Second Circuit Court of Appeals decision, *Krause v. Titleserv, Inc.,* 402 F.3d 119, 128 (2nd Cir. 2005), to find that a change that makes a program work on a machine of the user's choosing is "essential." In fact, the cited case focused on the purpose for which the software at issue "was both sold and purchased." In that case, the software was a custom ordered program created for a particular user who changed computer systems. That is significantly different than standardized phone software sold and purchased for use on a specific network.

C. Proponents Either Ignore the Statutory Factors Altogether or Misapply Them.

Proponents' failure to meet their burden of proof is particularly apparent in their wholly misguided – or, in some cases, nonexistent – attempt to address the mandatory statutory considerations in section 1201(a)(1)(C), which the Register previously found to be neutral. 2010 Register's Recommendation at 150. As discussed in Part III.A., these factors are aimed at protecting the fair use rights of individuals and were expressly identified by Congress as relevant to the consideration of the propriety of a section 1201(a)(1) exemption. Proponents' failure to address these factors in any meaningful way confirms that they have not met their burden of proof to justify the requested exemption.

Youghiogheny and RCA do not discuss the factors at all and thus did not present any evidence that the prohibition against circumvention is (i) decreasing the availability of works, (ii) interfering in any way with the use of works for nonprofit archival, preservation, and educational purposes, or (iii) interfering with criticism, comment, news reporting, teaching, scholarship, or research. Nor do they adduce evidence that permitting circumvention will not harm the market for or value of copyrighted works, including mobile phone software and operating systems.

While MetroPCS and CU do purport to address the factors, they distort and misapply them. For example, with respect to "the availability for use of copyrighted works," MetroPCS argues that the four major carriers represent "the substantial majority of wireless customers in the nation" and lock phones and therefore that "means that a high percentage of wireless customers are being restricted from full and fair use of their lawfully acquired wireless devices and lawfully licensed copyrighted works after the fulfillment of their initial carrier terms." MetroPCS Comments at 11. This assertion, however, ignores that cell phone software is widely and fully available for consumers to use in precisely the manner that they contracted for and sought to use that software – on the phone they purchased and on the carrier that subsidized that phone so it would cost the consumer less. Moreover, the assertion cannot be reconciled with the widespread availability of unlocked phone software, which CU itself admits. CU Comments at 15. Nor can it be reconciled with the fact that even carriers that lock their phones have policies in place to unlock them. *See supra* Part II.B.

MetroPCS also claims argues that changing carriers and devices will cause consumers to "likely lose access to … lawfully licensed copyrighted works" such as ringtones, songs, movies, and applications." MetroPCS Comments at 11. MetroPCS offers no evidence whatsoever that such a loss of access would occur, or that content licensing and sales policies would prohibit the movement of such content to another device, either directly – through the cloud, or through the user's computer. Nonetheless, the fate of licensed content on a handset is in the control of the content owner. Content may be resident on a device in a number of ways – it may be preloaded onto the device, loaded later by the carrier in a system update, or by way of a customer-initiated download (i.e. from an application store, music store) or side-load (for devices that permit side-loading). Some content (depending on the license and digital rights management ("DRM") imposed by the content provider) may be able to be re-downloaded to another device through the "cloud," through a mechanism that ensures the user is authenticated to access that content for more than one device (i.e. through iTunes Store or the Amazon App Store), or may be side-loaded off/onto a new device under the terms of the license.

Content owners, however, may require the carrier to put DRM in place on certain types of content that is designed to prevent certain types of re-distribution of that content. For example, in order for a carrier to be able to provide one license for a song to customers, they may be forced by the content provider to "forward-lock" the music so it cannot be "forwarded" to other phones in order to prevent infringement. In addition, content for which the carrier does pass-through/carrier billing, or content that requires integration with a carrier's network in order to work (i.e. Navigator live GPS and traffic software), is only usable on the carrier's network. Therefore, to the extent that TPM's are used to protect the transfer of content, they are protecting the underlying copyrighted content according to the will of the content owner who issued the license, and are operating exactly in the way that section 1201 is designed to operate, and MetroPCS' argument fails.   CU's and MetroPCS' attempt to show any adverse effect from locking on the availability for use of works for nonprofit, archival, preservation, and educational purposes is similarly unavailing. There is no evidence that cell phone locks interfere with the use of copyrighted works for these purposes, and these Proponents have pointed to none. Rather, CU argues only that <u>cell phones themselves</u> "play a central role in education" and that "inexpensive mobile devices and service are critically necessary for education." CU Comments at 15. This assertion is, of course, irrelevant to how a proposed unlocking exemption would foster the type of availability addressed by this factor. As discussed above, inexpensive phones are widely available (either through inexpensive unlocked phones or subsidized phones), and carriers will unlock phones under a wide variety of circumstances. *See supra* Part IV.B.. Likewise, MetroPCS argues that it "is not aware" that the availability of works for nonprofit purposes has been harmed by the exemption and that there "should be no cause for concern that the renewal" of the exemption will cause such harm. MetroPCS Comments at 12. These assertions are not only wholly unsupported by any evidence, but they address the wrong issue and improperly attempt to shift the burden of proof to opponents of the proposed exemption. The relevant issue is not whether the exemption harms the availability of works, but whether the prohibition on circumvention harms the availability of works, a proposition that Proponents do not even attempt to address. Given Proponents' complete failure of proof on this factor, it should weigh against any exemption.

With respect to "the impact that the prohibition … has on criticism, comment, news reporting, teaching, scholarship, or research," there is no evidence that cell phone locks interfere with the use of copyrighted works for these purposes. Indeed, even CU admits that this factor is neutral. CU Comments at 16. MetroPCS, for its part, again advances only improper burden-shifting speculation, asserting that it "is not aware" that the availability of works for commentary, reporting, etc. has been harmed by the exemption and that there "should be no cause for concern that the renewal" of the exemption will cause such harm. MetroPCS Comments at 12. Again, the relevant issue is not whether the exemption harms the availability of works, but whether the prohibition on circumvention harms the availability of works, a proposition that Proponents do not even attempt to address. In light of Proponents' complete failure of proof on this factor, it should weigh against any exemption.

Proponents similarly have failed to demonstrate that the factor addressing "the effect of circumvention . . . on the market for or value of copyrighted works" supports their requested exemption. Both MetroPCS and CU speculate that such circumvention "has little or no effect on the market for device firmware," but offer no evidence. MetroPCS Comments at 12; *see also* CU Comments at 17 (asserting that "exemption will have little impact on the market for or value of mobile device computer programs" but anomalously arguing that factor "weighs in favor of the proposed exemption"). CU additionally asserts – again without evidence – that "carriers will continue to market new devices to consumers, and will continue to pay manufacturers for the rights to accompanying firmware and software." Comments at 17. But there is reason to believe that such marketing and concomitant development of copyrighted operating software and firmware would, in fact, decrease, thereby lowering the market value of that software and firmware, because unauthorized unlocking would lower the incentive of creators to invest in innovation and create future works.

MetroPCS also argues that this factor favors its position by asserting that an unlocking exemption "would increase the value of the device to customers" and would not harm carriers, who are protected by long-term contracts. MetroPCS Comments at 12-13. This argument is a non sequitur and a misapplication of the factor, as it inappropriately focuses on the value of a device instead of the mandated analysis of the effect of unlocking on the value of copyrighted works. *See* 17 U.S.C. § 1201(a)(1)(C)(iv). In light of Proponents' complete failure of proof on this factor, it, too, should weigh against any exemption.

Finally, as established in *infra* Part V.E, Proponents have failed to establish that the Librarian and Register should include any "other factors as the Librarian considers appropriate" in its analysis, as they have failed to point to any additional consideration that relate to copyright interests – a necessary prerequisite for consideration under 17 U.S.C. § 1201(a)(1)(C)(v). Proponents have thus failed to demonstrate that any of the statutory factors weigh in their favor – which provides yet another basis for rejecting their proposed unlocking exemption.

D. The Availability of Other Means of Access Obviates the Need for any Exemption.

In addition to Proponents' failure to demonstrate any relevant harm, the so-called harm that they do allege not only is unrelated to copyrighted interests, but it amounts to no more than a "mere inconvenience" that does not support the imposition of an exemption to the general prohibition against circumvention. 2010 Final Rule at 43,826 ("De minimis problems, isolated harm or mere inconveniences are insufficient to provide the necessary showing."); 2006 Final Rule at 68,473 (same); 2003 Final Rule at 62,012 (same).

Proponents' comments make clear that they are interested primarily in customers' ability to freely choose their wireless carrier. Alternatives are available to individuals seeking to use a phone on a particular network that, while perhaps more inconvenient and costly, can achieve the same or similar ends without requiring the circumvention of access controls. As discussed above, consumers have a choice as to whether to purchase an inexpensive unlocked phone, an expensive unlocked phone without a subsidy, or opt for a subsidized phone with a term contract and a lock. As the Librarian and Register have repeatedly made clear, the availability of alternatives to meet the needs of the user is fatal to the grant of an exemption. *See* 2010

Register's Recommendation at 13 ("Proposals to designate classes of works in this proceeding are evaluated on the totality of the evidence, including market alternatives to circumvention that enable noninfringing uses."); 2006 Final Rule at 68,478 ("An exemption is not warranted simply because some uses are unavailable in the particular manner that a user seeks to make the use, when other options are available.").

Past rulemakings have rejected myriad proposed exemptions because circumvention was not necessary to achieve the noninfringing purposes of the user. For example, various DVD-related proposals have been rejected because the copyrighted works protected by CSS and other access controls were readily available in other formats, such as VHS, or by using different DVD players or software. *See*, *e.g.*, 2010 Final Rule at 43,828 (narrowing proposal for CSS-protected DVDs because, "Where alternatives to circumvention can be used to achieve the noninfringing purpose, such non–circumventing alternatives should be used"); 2006 Final Rule at 68478 (rejecting proposed exemption for DVDs that cannot be viewed on Linux operating systems because "Linux-based DVD players currently exist," "there are many readily available ways in which to view purchased DVDs," "Linux users can create dual-boot systems on their computers in order to use DVD software that is compatible with, for example, the Microsoft operating system," and "[t]here are also alternative formats in which to purchase the motion pictures contained on DVDs"); *id*. (rejecting proposed exemption for DVD region coding on ground that "[r]egion coding imposes, at most, an inconvenience rather than actual or likely harm, because there are numerous options available to individuals seeking access to content from other regions"); 2000 Final Rule at 64,568 (rejecting proposed exemption to circumvent DVD CSS technology in part because "[t]he reasonable availability of alternate operating systems (dual bootable) or dedicated players for televisions suggests that the problem is one of preference and inconvenience"). These determinations establish that an exemption will <u>not</u> be granted if there are alternatives that will allow the user to do what he or she is trying to do. Only when there are no such alternatives will the exemption be granted.[15]

[15] In an analogous situation, the Copyright Office repeatedly has allowed an exemption for software whose access is controlled by a hardware dongle, but only when the required dongle is malfunctioning or damaged and obsolete, and therefore unavailable in the commercial marketplace. See 2010 Final Rule at 43,832; *accord* 2006 Final Rule at 68,475; 2003 Final Rule at 62,013-14; 2000 Final Rule at 64,564-65. As no showing has been made that the codes or cards necessary to unlock the phone handsets' firmware are obsolete or unavailable from the vendors, there should be no exemption allowed.

Here, the specific purpose of the user is to connect a phone to a particular network. This purpose can be achieved without resorting to circumvention of access controls. Because perfectly viable alternatives are available, the proposal should be rejected. First, circumvention of TPMs is not the only way to access the firmware on any given handset. The House Judiciary Committee, in describing section 1201(a), compared the circumvention of access-control technologies to "breaking into a locked room in order to obtain a copy of a book." House Judiciary Committee Report 105-551 at 17.

But one may also obtain access to a book in a locked room by asking the book's owner for a key. The Proponents have presented nothing to indicate that wireless carriers will not unlock their phones for their customers if asked to do so. Indeed, as discussed in Part II.B, *supra,* carriers do not lock or will unlock the phones of *bona fide* customers and past customers in broad circumstances. Unlocked phones are widely available, *id.* Even CU recognizes in its comments that, "unlocked devices are widely sold…." Again, the cost and inconvenience of purchasing a new device are not barriers to rejection of the exemption. *See* 2006 Final Rule at 68,473; CU Comments at 15. In other words, a key to the lock is available, so there is no need to authorize the breaking of the lock.

Third, circumvention of the access control technology on a particular handset is not the only way to achieve the purposes of the consumer. If a consumer seeks to connect to a preferred wireless carrier, phones that will enable him or her do so are readily available in the marketplace for a fee. In such a case, there is no reason to create an exemption to the statutory prohibition simply to enable the user to keep using the old phone – "there is no unqualified right to access works on any particular machine or device of the user's choosing." 2000 Final Rule at 64,569; *see also* 2006 Register's Recommendation at 75-76 (confirming decisions in 2000 and 2003 that there should be no exemption for circumvention of DVD region coding, because consumers have the alternative of "obtaining DVD players, including portable devices, set to play DVDs from other regions and obtaining DVD-ROM drives for their computers, and setting those drives to play DVDs from other regions"); *see also Universal City Studios v. Corley*, 273 F.3d 429, 459 (2d Cir. 2001) (observing that there is no "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").

Because Proponents make no showing that the only way to obtain access to a phone's firmware, or that the only way to connect to a preferred carrier, is to circumvent the TPMs, the proposed exception should be rejected. Consumers have other options to unlock their existing phone or to get connected to their preferred network with a different phone. The cost, inconvenience, and harm to the environment in doing so – which is alleged but not proven by the Proponents – is not a cognizable rationale for an exemption in this proceeding, which is concerned only with abating harm to the ability to make noninfringing uses of copyrighted works.

E. The Alleged Benefits that Proponents Claim Result from an Unlocking Exemption Are Not Properly Considered in This Proceeding and, in any Event, Are Already Provided by Wireless Carriers.

As was true in the prior section 1201 rulemaking, Proponents again attempt to bolster their exemption arguments by pointing to a number of irrelevant considerations relating to competition, alleged consumer choice, the environment, and social issues that they claim are beneficially advanced by an unlocking exemption. *See, e.g.*, Youghiogheny Comments at 4 (alleging that consumers' "ability to unlock their own devices" promotes consumer choice and cost savings and removes "barriers to competition"); MetroPCS Comments at 28-31 (arguing that "[r]eusing [unlocked] wireless devices results in a cleaner environment" and that such devices "can be donated" to help charities raise money "or given to at-risk citizens for emergency use"); *id.* at 22-27 (asserting that consumer demand, lack of harm from exemption to content copyright owners, and disfavored status of "equitable servitudes on personal property" support exemption); CU Comments at 17-23 (asserting that locks "Impair Customers' Ability to Recover the Value of Their Subsidy Investments" and "Harm the Environment" and that "Improved Portability Would Foster Greater Competition" and induce manufacturers "to produce inexpensive and more innovative products"). But none of these concerns have anything to do with copyright interests and, as the Register previously found, are irrelevant to the section 1201 exemption inquiry.[16]

[16] To the extent this inquiry is relevant, carriers and manufacturers have programs that foster these aims. For example, AT&T has a charity recycling program called "Cell Phones for Soldiers" to recycle phones and use the funds to buy prepaid phone cards for active duty military members. <att.com/gen/press-room?pid=7930>. The program Call2Recyle, sponsored by cell phone manufacturers, is the only free rechargeable battery and cell phone collection program in North America. Since 1996, Call2Recycle has diverted 70 million pounds of rechargeable

In the prior section 1201 rulemaking, the Register observed that the proponents of a cell phone unlocking exemption had discussed numerous factors that they asserted the Register should consider in deciding whether to grant the exemption, including competition and consumer choice issues, the promotion of small business development, communications law and policy issues, environmental concerns, and assistance for impoverished nations, among others. 2010 Register's Recommendation at 145-47. The Register, however, explicitly found that these arguments "are unrelated to copyright interests" and that "[a]s such, they are not germane to the matters Congress was concerned with when it drafted section 1201(a)(1) over a decade ago." *Id.* at 153. The Register specifically singled out competition and consumer choice arguments as irrelevant to its inquiry, observing that:

> Consumer choice and enhanced competition in the wireless marketplace, along with the other noted benefits, may be valid arguments to make before other administrative agencies, such as the FCC, but are inapt here, in a proceeding conducted by the Copyright Office and the Librarian of Congress, which have no responsibilities for, and no particular expertise in, such matters, and where the purpose of the proceeding is to address copyright law and policy concerns.

Id.; *cf.* 2006 Final Rule at 68,478 (finding that "proposal by users of the Linux operating system is a matter of consumer preference or convenience that is unrelated to the types of uses to which Congress instructed the Librarian to pay particular attention, such as criticism, comment, news reporting, teaching, scholarship, and research as well as the availability for nonprofit archival, preservation, and educational purposes"). Thus, Proponents' discussion of competition, consumer choice, the environment, and the like are entirely irrelevant to the Register's section 1201 exemption inquiry.

Even putting aside the irrelevance of these considerations, Proponents have failed to demonstrate that any of these considerations are beneficially advanced by an unlocking exemption. To the contrary, the wireless carriers already provide these benefits apart from any such exemption.

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batteries from the solid waste stream and established a network of 30,000 public collection sites. *See* <call2recycle.org>.

With respect to Proponents' environmental arguments, for example, each of the major carriers and CTIA itself actively promotes recycling and offers means for customers to recycle their phones. CTIA, for its part, has been at the forefront of wireless recycling for years. Most recently, in recognition of Earth Day 2011, CTIA launched the "go wireless, go green" website to inform consumers how they can be more environmentally responsible. Among other topics, the website advises consumers how and where they can recycle their wireless devices.[17] Each of the four major carriers likewise have recycling programs that encourage customers to recycle their phones and batteries by bringing them to the carrier's retail store or by providing them with a pre-paid envelope to mail in the phone, with the proceeds going to various charitable causes. These programs include AT&T's Reuse & Recycle Program,[18] Verizon Wireless's HopeLine® Phone Recycling Program,[19] T-Mobile's Handset Recycling Program,[20] Sprint's Project Connect℠,[21] Additionally, the handset manufacturers sponsor the Call2Recyle® program.[22] The choice is <u>not</u>, as Youghiogheny claims, to "throw the device into a local landfill." Youghiogheny Comments at 5.

Similarly, with respect to competition and consumer choice, the wireless industry already is highly competitive and offers extensive consumer choice. As the FCC's annual report on wireless competition observes, 99.8% of the U.S. population lives in a census block where at least one wireless carrier offers service, and 94.3% live where at least four carriers operate. *Fifteenth Report* ¶¶ 2, 45. Moreover, "mobile wireless prices have declined significantly since the launch of PCS service in the mid-1990s," and they have remained at those levels through 2009, the most recent year analyzed. *Id.* ¶ 189. In addition, the major carriers have spent billions of dollars to develop extensive networks that provide high-quality coverage across the

[17] *See* <ctia.org/consumer_info/service/index.cfm/AID/10359; http://gowirelessgogreen.org/what-you-can-do/recycling-wireless-devices.aspx>.

[18] <wireless.att.com/about/community-support/recycling.jsp>.

[19] <support.verizonwireless.com/clc/faqs/Wireless%20Issues/Charge%20To%20Recycle.html>.

[20] <t-mobile.com/cell-phone-recycling>.

[21] <sprint.com/responsibility/communities_across/index.html?ECID=vanity:recycle; http://www.sprint.com/responsibility/communities_across/project_connect.html..

[22] http://www.call2recycle.org/.

nation, and the industry offers consumers a wide array of handsets, ranging from basic telephones to full-featured smart phones.

CU's screed against the supposed evils of phone subsidies – which allow carriers to offer high-end handsets at affordable, below-cost prices up front and recoup the price discount over time through wireless service contracts – is similarly specious. CU Comments at 17-21. To the contrary, handset subsidies allow the carriers to work with handset manufacturers to offer consumers ever-improving devices, with higher quality and greater functionality than otherwise would be available, for a fraction of the price that they otherwise would need to charge. S*ee infra* Part VII.

In addition, subsidies on phones used in pre-paid services[23] make wireless service available to many who could not afford that service or otherwise obtain the credit necessary to enter into post-paid contracts. Pre-paid services are typically made available on heavily subsidized phones, offered for very low cost, which, in turn, makes the service available to those who cannot afford higher-priced phones and those whose credit would not qualify them for post-paid service. For example, TracFone handsets are available for as little as around $10. TracFone Phones, <tracfone.com/phones.jsp?task=phones&subTask=allPhones> (last visited Feb. 7, 2012).

The import of these subsidies is not lost on Proponents, who seek to free ride on them. MetroPCS, for example, implicitly recognizes the benefits to consumers of these handset subsidies, commenting that it

> generally does not subsidize the cost of devices to the same extent as its competitors. Absent an unlocking exemption for wireless devices, a customer who wants MetroPCS' service might have to purchase a new device with no substantial subsidy – which could act as a barrier when that customer has already paid back the subsidy to the first carrier.

MetroPCS Comments at 21. It further acknowledges that for its more cost-sensitive customers, "the ability of these customers to use previously acquired devices to receive service [is] particularly attractive." *Id.* at 8. In other words, MetroPCS argues that the Copyright Office

[23] Pre-paid services are less prevalent than post-paid services and, as the name suggests, require consumers to pre-pay for wireless minutes before using them.

should adopt an exemption in order to allow MetroPCS's potential customers to acquire inexpensive handsets that have been heavily subsidized by other carriers and then appropriate for itself the benefit of that subsidy. Free-riding is not an interest that Congress created this proceeding to foster.

In short, the competition, consumer choice, subsidy, and environmental concerns raised by Proponents are entirely irrelevant to this proceeding. They are also unfounded, as the wireless industry is highly competitive, offers consumers extensive choice in hardware, functionality, service, and payment models, and already has extensive programs in place to foster the authorized recycling of used handsets. If an unlocking exemption is granted, it would undermine the industry's efforts to accomplish these goals and perversely promote business models that seek to free-ride on the handset subsidies that have allowed consumer choice to flourish.

F. To the Contrary, the Proposed Exemptions Would Foster Bulk Unlocking Arbitrage, Which Is Especially Pernicious and Undermines Consumer Choice.

None of the Proponents attempts to justify the application of an exemption to permit the bulk commercial purchase of new phones in order to free-ride on carrier subsidies by the reprogramming and arbitraged sale of those phones, either in the United States or abroad. MetroPCS expressly "confirms its desire that the exemption exclude [such] 'bulk resellers.'" MetroPCS Comments at 28 n. 52. The Register's observation in 2010 is equally valid today:

> [B]ulk reselling of new mobile phones by commercial ventures is a serious matter. There is no justification for the result of this rulemaking proceeding to condone, either expressly or implicitly, the illegal trafficking of mobile phones. Such illicit practices raise the cost of doing business, which in turn affects the marketplace for mobile phones and the prices consumers pay for such devices.

2010 Register's Recommendation at 169. In response, the Register limited the 2010 exemption to "used" phones and defined "used" phones as phones that have been "activated with the carrier or provider that sold the phone at a subsidized price and that the person activating the phone must have actually used on that carrier's network." *Id.* The Librarian agreed. *See* 2010 Final Rule (citing with approval Register's refusal to extend exemption to bulk resellers).

The factors that gave rise to this finding are no less valid today than they were in 2010. Rampant subsidy theft continues. CTIA members continue to spend millions of dollars to combat this activity, which has caused hundreds of millions of dollars in losses to the industry. CTIA members continue to attack such theft using all available means, including the DMCA anticircumvention provisions. *See supra* Part IV.B. Although the CTIA members thus far have prevailed in every lawsuit, the litigation has been extremely expensive and has not succeeded in stopping subsidy theft.

In addition to litigation, CTIA members continue to employ other approaches in their efforts to stop bulk unlocking and subsidy theft, including hiring private investigators, coordinating with law enforcement authorities, and engaging in public relations campaigns. TracFone has maintained its website – <stopcellphonetrafficking.com> – that seeks to inform the public about the dangers of subsidy theft and to deter perpetrators (the website also contains copies of every judgment entered against bulk unlockers). Wireless providers also work with retailers to limit the number of phones that can be purchased at a time, and the perpetrators have responded by hiring teams of "runners" who spend their days traveling from store to store buying the maximum allowed number of phones before moving on to the next store. *See* John Pacenti, *Cell Phone Resales Prompt Lawsuits*, South Florida Daily Business Review (Aug. 25, 2008).

Any suggestion that such activity is within the scope of a wireless phone unlocking activity will embolden the pirates and will make it more difficult to stop this pernicious practice. The Register and Librarian should be careful to avoid any such suggestion.

VI. THE PROPONENTS HAVE CERTAINLY FAILED TO JUSTIFY ANY OF THEIR PROPOSED EXPANSIONS TO THE CURRENT CELL PHONE UNLOCKING EXEMPTION.

Proponents' attempts to expand the current cell phone unlocking exemption in numerous ways are even more unjustified than their attempts to renew it. As shown below, Proponents have failed to justify any of their proposed expansions, and many of them would actually promote the very bulk reselling that the Register was rightfully concerned with preventing in deciding to approve any unlocking exemption at all. Each of the proposed expansions should be rejected.

A. Proponents' Proposed Deletion of the Restriction that Unlocked Cell Phones Be "Used" Is Wholly Unjustified and Would Foster Bulk Unlocking and Reselling.

Proponents seek to remove the one limitation imposed by the Register in 2010 to ensure that the Wireless Phone Unlocking Exemption was not used to justify illegitimate conduct – the limitation of the exemption to "used" phones. *See* MetroPCS Comments at 2; Youghiogheny Comments at 2; RCA Comments at 9-10; CU Comments at 3. If this limitation is removed, commercial bulk resellers would be able to purchase new cell phones in large quantities, unlock them, and resell them for a profit without violating section 1201 so long as they could assert with a straight face that the unlocking was done "solely in order to connect to a wireless telecommunications network."

As discussed above, the Register and the Librarian previously rejected application of any cell phone unlocking exemption to bulk resellers. *See supra* Part V.F. Indeed, the Register explicitly found that commercial bulk reselling was "illicit" and "a serious matter" that adversely affected the marketplace and consumers. *Id.*; 2010 Register's Recommendation at 169.

Proponents have advanced no reason why the Register should reach a contrary conclusion regarding the "used" limitation and thus have not remotely met their burden of proof on this issue. Tellingly, two of the four proponents of this expansion – MetroPCS and Youghiogheny – do not even attempt to justify their proposed elimination of this word, simply slipping it into their proposed exemptions *sub silentio*. *See* MetroPCS Comments at 2, 4-6; Youghiogheny Comments at 2. MetroPCS expressly "confirms its desires that the exemption exclude . . . 'bulk resellers.'" MetroPCS Comments at 28 n.52.

While CU claims that "individual consumers may have legitimate reasons for unlocking unactivated mobile devices," the only such reason it offers is that customers should be able to take advantage of their "periodic discount eligibility to purchase a new device anyway, then unlock it and sell it" at a profit. CU Comments at 3, 21. But enabling consumers to engage in profit-making activity wholly untethered to their ability to make noninfringing uses of copyrighted works falls so far outside the animating purpose of section 1201 to protect fair uses of such works and is thus a wholly irrelevant consideration in the section 1201 exemption analysis. Moreover, CU offers no evidence about the scope of this alleged phenomenon, admitting that "it is impossible to determine how many consumers engage in this type of behavior." CU Comments at 21. The single anecdotal instance cited by CU makes clear that the purpose of the unlocking is to make money. *Id.* CU also points to substantial unlocked cell phone listings on eBay as further support for its proposal. *Id.* Those listings, however, include both commercial phone bulk unlockers and resellers as well as foreign sellers from places such as Hong Kong, which actually undermines any case for this expansion. Nor, were it relevant, is CU's concept of a "subsidy investment" valid. Consumers are free to purchase unsubsidized phones and to use them on the carrier of their choice. Moreover, as discussed above, carriers unlock phones for legitimate customers long before the subsidy is recouped by the carrier.

RCA, for its part, proffers an alleged justification that, if anything, supports strengthening the "used" limitation, not eliminating it. It argues that the "used" restriction "merely invites these bulk resellers to 'use' the device for a very short time before reselling it" and does not prevent resellers from abusing the exemption by "activat[ing a device] for only a few instants." RCA Comments at 9-10. Apart from RCA's complete lack of support that such behavior is, indeed, occurring, RCA ignores that these types of abuses, if anything, support <u>strengthening</u> this limitation to halt such conduct, not eliminating it. RCA also argues that preventing bulk cell phone unlocking and resale is "not the concern of the Copyright Office" and that carriers can address this concern in other ways. *Id.* at 10. But this assertion turns the burden of proof on its head and ignores the very purpose of this section 1201 rulemaking – to ensure that individuals were not hindered from making fair, noncommercial uses of the copyrighted works at issue. *See supra* Part V.B.I.

Proponents have provided absolutely no evidence that the limitation of the exempted class to used phones has a "distinct, verifiable, and measurable adverse effect on noninfringing uses." Thus, they have failed to meet their burden of proof to justify the requested expansion. They have similarly failed to provide even one good reason why this rulemaking should be converted into a vehicle to foster commercial bulk phone unlocking and reselling. Their attempt to do so by eliminating the "used" restriction should be rejected.

B. Proponents Have Failed To Demonstrate that an Unlocking Exemption Should Be Granted for Wireless Devices Other than Cell Phones.

Proponents next attempt to bootstrap the current unlocking exemption into a much broader exemption covering all sorts of other wireless devices such as tablets, notebook computers, and the like. They do so by asking the Register to change "wireless telephone handsets" to "mobile" or "wireless" "devices and to change "wireless telecommunications network" to "wireless communications network." *See* MetroPCS Comments at 4-6; RCA Comments at 9-11; CU Comments at 2-4; Youghiogheny Comments at 2. Their requests are based solely on bare assertions that wireless technology is evolving and are unsupported by any evidence that (a) locking of such devices to wireless networks is occurring at all, much less to a significant degree; (b) the ability of users to engage in noninfringing uses of these devices has been adversely impacted by such locking; or (c) use of allegedly unlocked devices constitutes fair or other noninfringing use. *See* MetroPCS Comments at 4-6; RCA Comments at 9-11; CU Comments at 2-4; Youghiogheny Comments at 2. None of the Proponents has presented any evidence that the limitation of the exempted class of works to wireless telephone handsets has a "distinct, verifiable, and measurable adverse effect on noninfringing uses." Thus, they have failed to meet their burden of proof to justify the requested expansion, and their request should be rejected.

During the last section 1201 proceeding, the Register explicitly found with regard to the cell phone unlocking exemption that:

> The principal function of the phone that is of concern here is "voice" communication and the exemption should facilitate this use. A case has not been made that other devices, such as laptops or beepers, should be brought into the scope of the exemption because it has not been demonstrated that they are used primarily for this purpose. Nor has it been shown that similar access controls have been placed on such devices.

2010 Register's Recommendation at 165.[24] As was true in the prior proceeding, <u>no</u> case has been made that an unlocking exemption should encompass devices other than cell phones or that the proposed expansion should be expanded.

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[24] The Register also made clear that the decision to refer to "telecommunications" networks in the exemption instead of the previous "telephone communications" network was to make clear that multipurpose devices such as smart

Most fundamentally, Proponents offer no evidence at all supporting the need for expansion of a cell phone unlocking exemption to cover devices such as tablets. For example, CU engages in speculation, claiming that "[g]iven the recent explosion of tablet devices, it is highly likely that tablets locked to specific carriers will appear in the marketplace in the next three years. CU Comments at 26. It cites absolutely nothing to support that assertion, however, nor does it demonstrate that the ability of tablet users to make noninfringing uses of those tablets would be adversely impacted by the lack of an unlocking exemption.

Similarly, RCA asserts that "[t]he rationale for exempting traditional handsets applies with equal force to these other wireless devices, which larger wireless providers can 'lock' to their networks just as easily as traditional 'telephone handsets.'" RCA Comments at 9. But this statement does not provide any evidence that an expansion is necessary and constitutes sheer speculation that carriers lock such devices, or that users would be hindered in their ability to make noninfringing uses of such devices if such locking did occur. RCA also asserts that "[t]he 1996 Telecommunications Act defines 'telecommunications' narrowly" and that it should be broadened to encompass other devices to avoid regulatory confusion concerning whether VOIP, for example, is included in the exemption's scope. RCA Comments at 10-11. But this assertion presupposes the need for an expanded exemption without justifying that need with proof.

MetroPCS, for its part, likewise provides no evidence to support the need for expansion but simply assumes that such expansion is necessary, arguing that other non-telephone devices "[s]hould enjoy comparable anti-locking protection without a debate whether they qualify as telephone handsets" MetroPCS Comments at 5. MetroPCS also relies heavily on the statements made by the Register in the prior rulemaking, asserting that "all of the reasons cited by the Copyright Office as to why wireless devices should be included in the exemption would apply equally to those functionally equivalent wireless communications devices." *Id.* This reliance is particularly puzzling given that, as noted above, the Register emphatically decided <u>not</u> to expand a cell phone expansion to encompass other wireless devices.

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phones that included voice communication services were so long as such voice communication service was, indeed, offered by the device. 2010 Register's Recommendation at 165.

Proponents point to the evolving nature of wireless technology as a basis for an expanded exemption, but those assertions are irrelevant to the specified showings that the proponent of an exemption must make to satisfy its burden of proof and cannot make up for Proponents' lack of evidence. *See* CU Comments at 26 (citing the "ever-growing importance of multipurpose mobile devices in consumers' lives" as support for "critical" need for regulators to "adopt polices that enhance competition among devices manufacturers and service carriers"); Youghiogheny Comments at 20 (asserting that "[t]he definitions need to be adjusted to remain in line with current commerce now, as well as over the next three year period"); RCA Comments at 9 (arguing that a failure to expand "would needlessly ignore entire categories of wireless devices in this rapidly evolving marketplace"). Proponents must show a significant adverse impact from the prohibition on the ability to engage in noninfringing uses of copyrighted works. No one has put forth any such evidence, much less sufficient evidence to establish entitlement to an expanded unlocking exemption. In light of this lack of evidence that an exemption might even be applicable or necessary, Proponents' requested expansion should be rejected. *See, e.g.*, 2006 Register's Recommendation at 77 ("The brief comments submitted on this issue failed to present sufficient evidence from which to conclude that technological measures that control access to works are interfering with the ability of users of copyrighted works to make noninfringing uses. … No exemption can be recommended in this case because insufficient information has been presented to understand the nature of the problem or even the relevance of § 1201(a)(1).").

C. The Register Should Reject CU's Attempt To Expand the Unlocking Exemption To Allow the Owner of the Device, Rather than the Owner of a Copy of the Software or Firmware, To Engage in Cell Phone Unlocking Because that Requirement Is Essential To Stay Even Arguably Within the Bounds of Section 117.

The Register should also reject CU's attempt to expand the persons who may engage in unlocking without violating section 1201 to include not just the owners of a copy of the relevant software or firmware on the device to be unlocked but also the owners of the device itself. CU Comments at 4. The Register explicitly found during the prior section 1201 rulemaking that its "basis for finding that the prohibition on circumvention has adversely affected the ability of users to engage in noninfringing uses" – a necessary prerequisite to granting an exemption under section 1201(a) – "was the conclusion that those uses are privileged under Section 117." Register's Recommendation 167. She further found that "the Section 117 privilege may be exercised only by the owner of the copy of the computer program" and that therefore "the users who may benefit from the designation of this class must necessarily be confined to 'the owner of the copy of such a computer program." *Id.* While CTIA disagrees that section 117 protects the activities identified by Proponents at all, it is absolutely essential to maintain the "owner of the copy" restriction in order for the activities that Proponents advocate to stay even arguably within the bounds of that section under the Register's reasoning. *See* 17 U.S.C. § 117(a) (providing that "it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaption of that computer program" under certain circumstances (emphasis added)).

CU explicitly acknowledges the Register's prior finding that a necessary basis for the unlocking exemption was the exemption from infringement provided by section 117. CU Comments at 4. It argues, however, that "mobile device unlocking by device owners constitutes a noninfringing use in more instances than merely those to which the Section 117 privilege applies." *Id.* But it is not the unlocking itself that must be analyzed to determine whether it constitutes infringement but rather persons' uses of cell phone operating systems on wireless networks. Moreover, CU's other noninfringement arguments all fail for the reasons discussed above. *See supra* Part V.B. Further, CU has failed to adduce any evidence that the inclusion of the limitation to the owner of the software or firmware within the exempted class of works has a "distinct, verifiable, and measurable adverse effect on noninfringing uses." Thus, CU has failed to meet its burden of proof to justify the requested expansion. Thus, CU has failed to justify its proposed modification. Notably, none of the other Proponents of a wireless phone unlocking exemption even argue that this requirement should be removed.[25]

[25] While RCA does not propose this expansion, it does mischaracterize the Register's Report as stating that "[o]wners of mobile phones are also the owners of the copies of the software that are fixed on those phones and that as owners they are entitled to exercise the Section 117 privilege." RCA Comments at 4 & n.8. The Register, however, only found – on the specific record before it – that the proponents during the prior rulemaking had "made a *prima facie* case" of such ownership in certain cases, but that the opponents of the unlocking exemption had rebutted that case in certain instances. 2010 Register's Recommendation at 132. The Register did not establish any *per se* rule that device owners necessarily also owned a copy of the software on that device, and, in fact, the Register expressly found that there were instances where that is not the case. *Id.* In any event, even if RCA were correct, then no change in language would be needed at all, as the two types of owners would be coterminous.

D. The Register Should Reject Proponents' Attempts To Relax the Requirement that the Unlocking Circumvention Be "Solely in Order To Connect to a Wireless Telecommunications Network" Because that Requirement Is Essential To Stay Even Arguably Within the Confines of Section 117 and To Ensure that Circumvention Is Not Undertaken To Infringe Copyrighted Works.

CU and Youghiogheny both attempt to relax another restriction that is necessary to have an even arguable claim that certain conduct is protected from infringement claims by section 117 – *i.e.*, the requirement that unlocking be performed "solely in order to connect to a wireless telecommunications network." CU Comments at 4-5; Youghiogheny Comments at 2. Most radically, CU attempts to dispense with the requirement altogether, attempting to replace the restriction with language specifying merely that the unlocking be performed "to remove a restriction that limits the device's operability to a limited number of networks, or circumvention is initiated to connect to a wireless communications network." CU Comments at 5. By this proposal, and by CU's own admission, CU seeks to replace an essential limitation with meaningless and circular language that states no more than the purpose of unlocking must be to unlock. *See* CU Comments at 5 (conceding that its proposed language would encompass persons who "would describe their objective as removing the lock"). *Id.* While CU states (Comments at 5) that this change would merely extend the exemption "to a slightly broader range of unlocking consumers' objectives," in fact, it would eviscerate the requirement that there be any meaningful objective at all. It also would emphatically defeat any arguable claim that section 117 somehow applies to protect the use of unlocked cell phones on alternative networks from infringement claims (assuming that that section could protect this activity at all). The Register should therefore reject CU's request.

The Register should also reject CU's and Youghiogheny's request to remove the requirement that the unlocking be performed "solely" to connect to a wireless telecommunications network. CU Comments at 4-5; Youghiogheny Comments at 2. As a preliminary matter, neither Proponent has presented any evidence that the limitation of the exempted class by the "solely" requirement has a "distinct, verifiable, and measurable adverse effect on noninfringing uses." Thus, they have failed to meet their burden of proof to justify the requested expansion.

Further, like the limitation to the owner of the software or firmware, the term "solely" is necessary to preserve a colorable claim that section 117 protects the activity at issue from an infringement claim, as section 117 requires that the copy or adaptation of a computer program be "created as an <u>essential step</u> in the utilization of the computer program in conjunction with a machine and that it is <u>used in no other manner</u>." *See* 17 U.S.C. § 117(a)(1) (emphasis added). Significantly, even MetroPCS recognizes (Comments at 16) that section 117 requires that changes to a cell phone's operating system code must be "solely for the purpose" of enabling interoperability. MetroPCS Comments at 16 ("observing that changes to a cell phone's operating system code during unlocking "would be permitted so long as they were solely for the purpose of enabling the consumer to choose the carrier's network to support use of his or her device").

Moreover, the Register's previous Report indicated that it had included that limitation to exclude persons from the unlocking exemption where their partial purpose was "to remove restrictions on other copyrighted content stored on the handset." Register's Recommendation 166. Removal of the word "solely" would not guard against such persons attempting to claim the benefits of an unlocking exemption against the prohibition against circumvention.

CU attempts to justify its modification by asserting that persons with "the primary objective of fetching a higher price for [a cell phone] at sale" should be allowed to take advantage of an unlocking exemption *See* CU Comments at 5. Again, it presents no evidence of the need for such an expansion, and even if it had such evidence, the stated objective is not within the scope of section 117 and has nothing to do with the ability to make fair or other noninfringing use of a cell phone on wireless networks, which is the driving purpose behind the section 1201 exemptions in the first place.

Youghiogheny argues in the alternative that the word "solely" should at least be replaced with "principally" because "[t]he word 'solely' might often be understood as an absolute, which would rule out cases where the principal purpose of switching networks is secondary to a purpose of serving others, or facilitating a business relationship, or making money, or whatever." Youghiogheny Comments at 2. Youghiogheny offers no evidence that the exemption has been so construed or that there is any need for such a change. It has thus failed to meet its burden of proof. Moreover, even if it had presented evidence, these types of objectives have nothing to do with the fair use concerns behind the section 1201 exemption rulemakings. Finally, Youghiogheny ignores the fact that the Register already dealt with this objection during the last rulemaking by changing "the sole purpose of" to "solely in order to connect," which it stated would emphasize the function of the change rather than the subjective purpose of the change. Register's Recommendation 166. There is no need to revisit this argument in light of this regulatory history.

At bottom, CU's and Youghiogheny's attempt remove a key restriction on the types of unlocking permitted under their proposed exemption would facilitate the very type of commercial bulk cell phone unlocking and reselling that the Register refused to condone during the prior section 1201 rulemaking. Proponents have failed to meet their burden of proof in justifying this change (and, indeed, have failed to meet their burden of proof in demonstrating entitlement to an exemption at all). Certainly, the desire to permit consumers and bulk resellers to "make money" cannot justify such a change. Thus, any expansion to remove the language requiring that unlocking be "solely in order to connect to a wireless telecommunications network" should be rejected.

E. The Register Should Reject Proponents' Attempt To Expand the Unlocking Exemption To Encompass "Data" Because That Request Is Unnecessary and Irrelevant.

All four of the proponents of a cell phone unlocking exemption seek to expand the class of copyrighted works to encompass not only "[c]omputer programs, in the form of firmware or software," but "data used by those programs as well." MetroPCS Comments at 4; RCA Comments at 8-9; CU Comments at 1; Youghiogheny Comments at 2. None of the Proponents has presented any evidence that the failure to include "data" within the exempted class of works has a "distinct, verifiable, and measurable adverse effect on noninfringing uses." CU, for its part, does not attempt to defend this proposed expansion at all. *See* CU Comments at 2-5. Thus, Proponents have failed to meet their burden of proof to justify the requested expansion.

Moreover, the request makes no sense in the context of this rulemaking. There is no evidence or even any credible argument that anyone ever seeks to circumvent a TPM protecting "data used by" the relevant software or firmware. Thus, such "data" are not properly considered a relevant class of works, even if such data were copyrighted.

F. The Register Should Reject CU's Proposed Deletion of the Requirement that the Unlocking Exemption only Apply Where "Access to the Network Is Authorized" Because It Would Encourage Unlockers To Access Wireless Networks Illegally.

CU stands alone in seeking to remove the requirement that unlocking only be exempted from the prohibition against circumvention of TPMs if access to the wireless network to which the unlocker seeks to connect is "authorized by the operator of the network." *See* CU Comments at 1, 5. Tellingly, CU does not even attempt to justify this proposed expansion of the exemption but simply slips it in undefended. Nor does CU present any evidence that this limitation on the exempted class of works has a "distinct, verifiable, and measurable adverse effect on noninfringing uses." Thus, CU has failed to meet its burden of proof to justify the requested expansion.

The reason for CU's failure to defend its proposal is obvious: the proposed expansion would remove any section 1201 barriers to unlocking performed to enable a cell phone to connect to wireless networks without the permission of the network operator and thus condone illegal access to those networks. During the prior section 1201 rulemaking, the Register made clear that the rationale for this language was "to ensure that individuals or firms could not use the exemption to illegally connect to a wireless network, that is, to connect to a network without the permission of the operator of that network." 2010 Register's Recommendation at 167. While the exemption that had been in place up to that rulemaking had purported to implement that rationale by requiring that unlocking be accomplished for the sole purpose of "lawfully connecting to" a wireless telecommunications network, the Register acknowledged the concerns of one commenter that the word "lawfully" was ambiguous. *Id.* at 162. She therefore replaced that word with the requirement that network access be "authorized by" the network operator "[i]n order to more accurately state the purpose that was originally behind the use of that word, and which remains valid in this proceeding." *Id.* at 167. The Register's concern about condoning unlawful connections to wireless telecommunications networks through a section 1201 exemption continues to be valid during the current proceeding, and CU's attempt to remove this restriction should be rejected.

VII. THE TECHNOLOGICAL MEASURES USED IN THE WIRELESS INDUSTRY FURTHER COPYRIGHT INTERESTS AND ARE PROPERLY WITHIN THE SCOPE OF SECTION 1201.

Proponents' arguments that the network locks they seek to circumvent do not protect copyright interests are simply wrong. Network locks are important in helping to foster the development of new, innovative handsets, including the copyrightable software that runs them, and the development of new, innovative copyrightable applications that can be used on those handsets. Wireless carriers invest heavily in bringing products, features and services to the market. Network locks foster carriers' ability to support this investment and consistently offer new and innovative products and features (including the copyrightable elements) that will be available through the combination of the handset, the software, and the network. Without the locks at issue in this rulemaking, the incentive to engage in such investment would be significantly reduced and the public would be worse off. In short, contrary to the arguments of Proponents, and the expressed doubts of the Register in past proceedings, the TPMs at issue here play the same role in fostering the development of copyrightable content that TPMs protecting motion pictures and sound recordings play.

Carriers often work closely with handset manufacturers to develop the hardware and software for a new handset on the condition that the carrier either will commit significant marketing dollars to introduce the new device or that the carrier will commit to certain minimum purchases of the device or to certain subsidies in order to ensure that sufficient sales volumes to justify the investment in the device. Such arrangements are feasible where the carrier has an exclusive arrangement for the device. No carrier would devote substantial development and marketing resources to a device if that device were to be immediately available through other carriers. Nor would a carrier be able to make the same kind of a volume commitment for a non-exclusive device.

The pro-copyright effects of the network locks challenged by Proponents are vividly illustrated by the example of the Apple iPhone. The iPhone was, of course, a new handset that revolutionized the marketplace and fostered a frenzy of innovation – both copyrightable and non-copyrightable. The iPhone was developed by Apple with extensive investment and cooperation by AT&T, which was to be the exclusive carrier for the iPhone.

AT&T invested millions of dollars in the development, deployment and promotion of the iPhone. For example, it invested thousands of man-hours working with Apple on critical issues affecting hardware and software, such as maximizing performance and battery life. It made substantial investments to develop the software necessary, among other things, to enable innovative features such as "visual voicemail" and to create activation systems that would interact in real time with iTunes. It invested enormous resources in the promotion of the iPhone, which were essential to ensuring that both Apple and AT&T recouped their investments in developing the phone.[26]

AT&T's exclusive right to distribute the iPhone for use on its network was a critical component in permitting both Apple and AT&T to make these investments necessary to support the development of this innovative handset. The network locks that helped protect that exclusivity, in turn, were similarly important in permitting both AT&T and Apple to make the necessary investments.

The iPhone prompted a flurry of competitive activity and a wealth of new copyrightable (and non-copyrightable) creation. Other carriers and handset manufacturers have responded like never before with numerous new devices – all aggressively pushing the envelope on innovations, features, quality, and price because of the drive to create copyrightable (and non-copyrightable) works that meet or exceed those contained in the iPhone. For example, Sprint collaborated with Samsung and involved over 200 Sprint employees and contractors in developing the Samsung Instinct, which was exclusive to Sprint.[27]

Proponents' arguments that network locks do not protect copyright interests are wrong. The network lock TPMs at issue in this proceeding are entitled to no less protection than CSS or any other TPM that protects copyrighted works.

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[26] *See* Comments of AT&T, Inc., In the Matter of Petition for Rulemaking Regarding Exclusivity Arrangements Between Commercial Wireless Carriers and Handset Manufacturers, FCC Docket RM-11497 at 2-4, 18-21 (Feb. 2, 2009).

[27] *See* Reply Comments of AT&T, Inc., In the Matter of Petition for Rulemaking Regarding Exclusivity Arrangements Between Commercial Wireless Carriers and Handset Manufacturers, FCC Docket RM-11497 (Feb. 2, 2009) at 7-8.

VIII. CTIA WOULD NOT OPPOSE AN EXEMPTION THAT IS NARROWLY TAILORED TO ALLOW BONA FIDE INDIVIDUAL CUSTOMERS TO CIRCUMVENT IN ORDER ONLY TO USE THEIR OWN PHONES ON A DIFFERENT NETWORK, AND THAT MAKES CLEAR THAT IT DOES NOT CONDONE COMMERCIAL CIRCUMVENTION.

As discussed above, the proper focus of the section 1201(a)(1) rulemaking is on individual, noncommercial conduct. This focus coincides with the fact that the greatest threat from circumvention is from circumvention by phone traffickers and services that are attempting to free-ride on handset subsidies. CTIA's members do not foresee a situation in which they would bring a section 1201 action against a bona fide individual customer who circumvented a handset lock solely in order to use his or her own phone on another service. For that reason, CTIA would not object to a narrowly targeted exemption to permit such circumvention.

It is, however, essential that the exemption be carefully limited so that it cannot be used to foster destructive free-riding commercial activity, undermine exclusive distribution agreements, or facilitate bulk theft of handset subsidies through trafficking in new subsidized phones. Such limitations must be express. Free-riders have attempted to misuse the Librarian's prior rules to argue that the circumvention of handset locks is federal policy, preempting all other possible claims. For example, one of the Proponents here, MetroPCS, sued Virgin Mobile for a declaratory judgment, claiming that the 2006 Rule has extraordinarily broad effect and import, protecting its MetroFLASH service from a variety of causes of action. *See* Complaint, *MetroPCS Wireless, Inc. v. Virgin Mobile USA, L.P.*, Case No. 08CV1658-D (N.D. Tex. filed Sept. 19, 2008). Among other things, MetroPCS argues that the purpose of the 2006 exemption "is to ensure that customers have the freedom to switch wireless communications service providers" and that Virgin Mobile's user contracts "are thus pre-empted by the exemption in the DMCA." *Id*. ¶¶ 39, 40. MetroPCS makes a similar preemption claim with respect to tortious interference with contractual relations and prospective business advantage. *Id*. ¶¶ 47, 53. Although that attempt was rejected by a court, it demonstrates the misuse that Proponents and others are willing to make of this rulemaking. Moreover, CTIA's members are willing to accept such a narrowly tailored exemption only if it is clear that the members' support for such an exemption is limited to section 1201(a)(1) and is not intended to, and does not, affect any other legal or contractual right that they may have available to combat the unlocking of locked phones, whether by commercial enterprises or by individuals.

Specifically, and with the foregoing caveats, CTIA would not oppose an exemption that is no broader than the following:

> Computer programs, in the form of firmware or software, that enable used wireless telephone handsets to connect to a wireless telecommunications network, when circumvention is *undertaken by an individual customer of a wireless service provider who owns* ~~initiated by the owner of~~ the copy of the computer program solely *for noncommercial purposes* in order to connect to a wireless telecommunications network *other than that of the service provider* and access to the network is authorized by the operator of the network.

CONCLUSION

For the foregoing reasons, CTIA respectfully requests that the Copyright Office reject Proposed Exemptions 6A, 6B, and 6C.

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EXHIBIT A

STRATEGY ANALYTICS SPECTRAX

Contact:
Date: 9-Feb-12
Author: Stuart Robinson, Phill Maling
Service: SpecTRAX/PriceTRAX service, Strategy Analytics
Subject: Unlocked phones in the US
Analysis: The data below has been extracted from our SpecTRAX database service. It shows a list of handsets that have been sold unlocked in the US during the last 12 months. Duplicates have been removed.

More Info: www.strategyanalytics.com/SpecTRAX.aspx

SpecTRAX, Handset spec Analysis

Dell Venue Pro
Google Nexus One
HTC 7 Trophy
HTC Desire HD A9191
HTC HD2 T8585
HTC HD7 - 8GB
HTC Imagio
HTC Inspire 4G
HTC Magic
HTC Merlot myTouch 3G
HTC myTouch 3G Slide
HTC Ozone
HTC S620
HTC S743
HTC Snap S521
HTC Touch Dual US
HTC Touch Pro
HTC Touch Pro2 T7373
HTC Wildfire
HTC Wildfire S
LG Cookie Lite T300
LG CP150
LG GD510 Pop
LG GD570 dLite
LG GR500
LG GS500 Cookie Plus
LG GT365
LG GT540 Optimus-2
LG GW520 Calisto
LG GW620 Etna
LG GX200
LG KP500 Cookie
LG KS360
LG Optimus Me P350 - 2
LG VS750 Fathom
LG Xenon
Motorola BACKFLIP MB300
Motorola CHARM MB502-1
Motorola Cliq MB220
Motorola DROID
Motorola EX115
Motorola EX128
Motorola Flipout MB511-1
Motorola MOTO Q
Motorola MOTO W7 Active Edition - 1
Motorola MOTOFONE F3
Motorola MOTOROI XT720
Motorola Q 9h
Motorola RAZR V3
Motorola RAZR2 V9
Motorola V190
Motorola W233 Renew
Motorola W388
Motorola ZN300
Nokia 1661-1
Nokia 2680 Slide
Nokia 2720 Fold
Nokia 2730 classic
Nokia 2760
Nokia 3710 Fold
Nokia 6085
Nokia C2-01 - 1
Nokia C3-01 Touch and Type
Nokia C5-03 - 2
Nokia C5-04
Nokia C6-00-1
Nokia E5-00-2
Nokia E7-00

Nokia E72
Nokia N76
Nokia N8-00
Nokia N97 mini-2
Nokia X2-01
Palm Centro
Palm Pixi Plus GSM - 1
Pantech C530 (Slate)
Pantech C740 (Matrix)
Pantech C810
Research in Motion BlackBerry 8700g
Research in Motion BlackBerry 8820
Research in Motion BlackBerry Bold 2 9700
Research in Motion BlackBerry Bold 9000
Research in Motion BlackBerry Curve 2 8520
Research in Motion BlackBerry Curve 3G 9300 (2)
Research in Motion BlackBerry Curve 8300
Research in Motion BlackBerry Pearl 3G 9100-1
Research in Motion BlackBerry Pearl 8100
Research in Motion BlackBerry Pearl 8110
Research in Motion BlackBerry Pearl Flip 8220
Research in Motion BlackBerry Pearl Flip 8230 'Apex'
Research in Motion BlackBerry Storm 2 9550
Research in Motion BlackBerry Storm 9500
Research in Motion BlackBerry Torch 9800 Slider
Research in Motion BlackBerry Tour 9630
Samsung B2710
Samsung B3310
Samsung B5310 CorbyPRO
Samsung B7320 Omnia Pro
Samsung C3050
Samsung C3300K Champ
Samsung C3500
Samsung E2330
Samsung Galaxy Ace GT-S5830
Samsung Galaxy Fit S5670
Samsung Galaxy S II i9100 (16 GB)
Samsung i5500 Galaxy 5
Samsung i9000 Galaxy S-1 - 8GB
Samsung i9000 Galaxy S-2 - 8GB
Samsung Omnia 7 i8700
Samsung S3350
Samsung S3370 Corby 3G
Samsung S5230 Star
Samsung S5560 Marvel
Samsung S5620 Monte
Samsung S8500 Wave - 2GB
Samsung SGH-A107
Samsung SGH-A137
Samsung SGH-A737
Samsung SGH-I617 BlackJack II
Samsung SGH-i917 Focus
Samsung SGH-T139
Samsung SGH-T349
Samsung SGH-T369
Samsung SGH-T459 Gravity
Samsung SGH-T479 Gravity 3
Samsung T939 Behold 2
Sharp Sidekick 2008
Sharp Sidekick LX/Sidekick 4 "Shuriken"
Sonim XP3 Quest
Sony Ericsson C905a
Sony Ericsson Xperia Play R800a
Sony Ericsson Xperia X10 Mini E10a
Sony Ericsson Xperia X10 Mini Pro U20a
T-Mobile Dash
T-Mobile Dash 3G
T-Mobile G1
T-Mobile Sidekick LX 2009
UTStarcom Knick

Strategy Analytics' SpecTRAX/PriceTRAX service, data pulled February 9, 2012. (Unlocked Phones sold in the past 12 months).

See end of document for disclaimer.

EXHIBIT B

Plan Type	Operator	Retailer	Handset	Price	Date Captured
PAYG	Unlocked	Best Buy	BlackBerry - 8520 Mobile Phone (Unlocked) - White	$229.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - 8820 Mobile Phone (Unlocked) - Black	$129.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Bold 9700 Mobile Phone (Unlocked) - White	$349.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Bold Mobile Phone (Unlocked) - Black	$349.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Bold Mobile Phone (Unlocked) - Black	$499.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Curve 8520 Mobile Phone (Unlocked) - Black	$299.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Curve 9300 Mobile Phone (Unlocked) - Purple	$349.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Curve Mobile Phone (Unlocked) - Black	$299.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Curve Mobile Phone (Unlocked) - Black	$379.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Pearl 8110 Mobile Phone (Unlocked) - Pink	$139.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Pearl Mobile Phone (Unlocked) - Black	$269.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Pearl Mobile Phone (Unlocked) - Black	$119.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Pearl Mobile Phone (Unlocked) - White/Silver	$159.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Storm 2 Mobile Phone (Unlocked) - Black	$299.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Storm Mobile Phone (Unlocked) - Black	$219.99	12/2/2011
PAYG	Unlocked	Best Buy	BlackBerry - Torch 9800 Mobile Phone (Unlocked) - Black	$529.99	12/2/2011
PAYG	Unlocked	Best Buy	Dell - Venue Pro Mobile Phone (Unlocked) - Black	$329.99	12/2/2011
PAYG	Unlocked	Best Buy	HTC - Dash Mobile Phone (Unlocked) - Black	$99.99	12/2/2011
PAYG	Unlocked	Best Buy	HTC - G1 Mobile Phone (Unlocked) - Brown	$159.99	12/2/2011
PAYG	Unlocked	Best Buy	HTC - HD2 Mobile Phone (Unlocked) - Black	$349.99	12/2/2011
PAYG	Unlocked	Best Buy	HTC - My Touch Mobile Phone (Unlocked) - Black	$189.99	12/2/2011
PAYG	Unlocked	Best Buy	HTC - Ozone XV6175 Mobile Phone (Unlocked) - Black	$129.99	12/2/2011
PAYG	Unlocked	Best Buy	HTC - Wildfire Mobile Phone (Unlocked) - Black	$249.99	12/2/2011
PAYG	Unlocked	Best Buy	LG - Fathom Mobile Phone (Unlocked) - Black	$99.99	12/2/2011
PAYG	Unlocked	Best Buy	LG - KP500 Mobile Phone (Unlocked) - Black	$119.99	12/2/2011
PAYG	Unlocked	Best Buy	LG - Neon Mobile Phone (Unlocked) - Black	$79.99	12/2/2011
PAYG	Unlocked	Best Buy	LG - Optimus Mobile Phone (Unlocked) - Black	$159.99	12/2/2011
PAYG	Unlocked	Best Buy	LG - Optimus Mobile Phone (Unlocked) - Black/Gray	$199.99	12/2/2011
PAYG	Unlocked	Best Buy	LG - Xenon GR500 Mobile Phone (Unlocked) - Blue	$99.99	12/2/2011
PAYG	Unlocked	Best Buy	LG - Xenon GR500 Mobile Phone (Unlocked) - Red	$99.99	12/2/2011
PAYG	Unlocked	Best Buy	LG - Xenon Mobile Phone (Unlocked) - Black	$129.99	12/2/2011
PAYG	Unlocked	Best Buy	Motorola - Charm Mobile Phone (Unlocked) - Black	$139.99	12/2/2011
PAYG	Unlocked	Best Buy	Motorola - Cliq Mobile Phone (Unlocked) - Black	$179.99	12/2/2011
PAYG	Unlocked	Best Buy	Motorola - DROID Mobile Phone (Unlocked) - Black	$379.99	12/2/2011
PAYG	Unlocked	Best Buy	Motorola - EX115 Mobile Phone (Unlocked) - Black	$99.99	12/2/2011
PAYG	Unlocked	Best Buy	Motorola - EX128 Mobile Phone (Unlocked) - Black	$129.99	12/2/2011
PAYG	Unlocked	Best Buy	Motorola - MB200 CliQ Mobile Phone (Unlocked) - Titanium/Winter White	$179.99	12/2/2011
PAYG	Unlocked	Best Buy	Motorola - Milestone XT720 Mobile Phone (Unlocked) - Black	$299.99	12/2/2011
PAYG	Unlocked	Best Buy	Motorola - Moto Q Mobile Phone (Unlocked) - Silver	$99.99	12/2/2011
PAYG	Unlocked	Best Buy	Motorola - MOTO W7 Active Edition Mobile Phone (Unlocked) - Black	$89.99	12/2/2011
PAYG	Unlocked	Best Buy	Motorola - W388 Mobile Phone (Unlocked) - Black	$49.99	12/2/2011
PAYG	Unlocked	Best Buy	Motorola - W388 Mobile Phone (Unlocked) - White	$49.99	12/2/2011
PAYG	Unlocked	Best Buy	Nokia - 1661 Mobile Phone (Unlocked) - Black	$47.87	12/2/2011
PAYG	Unlocked	Best Buy	Nokia - 6085 Mobile Phone (Unlocked) - Black	$59.99	12/2/2011
PAYG	Unlocked	Best Buy	Palm - Centro Mobile Phone (Unlocked) - Black	$99.99	12/2/2011
PAYG	Unlocked	Best Buy	Palm - Pixi Plus Mobile Phone (Unlocked) - Black	$99.99	12/2/2011
PAYG	Unlocked	Best Buy	Pantech - Duo Mobile Phone (Unlocked) - Black	$69.99	12/2/2011
PAYG	Unlocked	Best Buy	PCD - Quickfire Mobile Phone (Unlocked) - Orange	$99.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - A737 Mobile Phone (Unlocked) - Blue	$54.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - B2710 Mobile Phone (Unlocked) - Black	$139.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - Blackjack II Mobile Phone (Unlocked) - Black	$59.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - Blackjack II Mobile Phone (Unlocked) - Red	$69.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - Blackjack II Mobile Phone (Unlocked) - White/Pink	$69.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - CH@T 350 Mobile Phone (Unlocked) - Black	$149.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - Champ Mobile Phone (Unlocked) - Black	$99.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - Galaxy 5 Mobile Phone (Unlocked) - Black	$149.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - Galaxy Ace Mobile Phone (Unlocked) - Black	$339.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - i9000 Galaxy S Smartphone (Unlocked) - Black	$529.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - I9100 Galaxy S II Mobile Phone (Unlocked) - Black	$799.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - I917 Focus Mobile Phone (Unlocked) - Black	$249.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - Monte Mobile Phone (Unlocked) - Black	$149.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - Omnia 7 Mobile Phone (Unlocked) - Black	$369.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - S3350 Mobile Phone (Unlocked) - Black	$109.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - Samsung a107 Mobile Phone (Unlocked) - Silver	$29.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - Star Mobile Phone (Unlocked) - Black	$119.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - Stratus Mobile Phone (Unlocked) - Black	$69.99	12/2/2011
PAYG	Unlocked	Best Buy	Samsung - T369 Mobile Phone (Unlocked) - Black	$79.99	12/2/2011
PAYG	Unlocked	Best Buy	Sharp - Sidekick PV300 Mobile Phone (Unlocked) - Black	$69.99	12/2/2011
PAYG	Unlocked	Best Buy	Sonim - XP3.20 Quest Mobile Phone (Unlocked) - Black	$399.99	12/2/2011
PAYG	Unlocked	Best Buy	Sony Ericsson - Cyber-Shot Mobile Phone (Unlocked) - Black	$499.99	12/2/2011
PAYG	Unlocked	Best Buy	Sony Ericsson - Xperia PLAY R800 Mobile Phone (Unlocked) - Black	$499.99	12/2/2011
PAYG	Unlocked	RadioShack	BlackBerry® Curve™ 8520	$299.99	12/2/2011
PAYG	Unlocked	RadioShack	BlackBerry® Curve™ 9300	$369.99	12/2/2011
PAYG	Unlocked	RadioShack	BlackBerry® Pearl™ 8110	$149.99	12/2/2011
PAYG	Unlocked	RadioShack	LG® GR500	$139.99	12/2/2011
PAYG	Unlocked	RadioShack	LG® GT365 Neon®	$89.99	12/2/2011
PAYG	Unlocked	RadioShack	LG® KP500 Cookie	$124.99	12/2/2011
PAYG	Unlocked	RadioShack	Motorola CLIQ™ MB200	$214.99	12/2/2011
PAYG	Unlocked	RadioShack	Motorola Q™9h	$109.99	12/2/2011
PAYG	Unlocked	RadioShack	Samsung Behold® II	$264.99	12/2/2011
PAYG	Unlocked	RadioShack	Samsung Ch@t™ 335	$199.99	12/2/2011
PAYG	Unlocked	RadioShack	Samsung Tocco Lite S5230	$129.99	12/2/2011
PAYG	Unlocked	RadioShack	Samsung® C3050	$74.99	12/2/2011
PAYG	Unlocked	RadioShack	Samsung® I5500	$199.99	12/2/2011
PAYG	Unlocked	RadioShack	Samsung® Monte S5620	$164.99	12/2/2011
PAYG	Unlocked	RadioShack	Samsung® T139	$39.99	12/2/2011
PAYG	Unlocked	Walmart	BlackBerry 8520 GSM Cell Phone, White (Unlocked)	$279.00	12/2/2011
PAYG	Unlocked	Walmart	BlackBerry 9300 GSM Cell Phone, Black (Unlocked)	$379.99	12/2/2011
PAYG	Unlocked	Walmart	BlackBerry Bold 9700 GSM Cell Phone, Black (Unlocked)	$369.00	12/2/2011
PAYG	Unlocked	Walmart	HTC Wildfire A3333, Mocha (Unlocked)	$270.54	12/2/2011
PAYG	Unlocked	Walmart	LG GT365 Neon GSM Cell Phone, Black/Silver (Unlocked)	$79.00	12/2/2011
PAYG	Unlocked	Walmart	LG Xenon GR500 GSM Cell Phone, Black (Unlocked)	$98.84	12/2/2011
PAYG	Unlocked	Walmart	LG Xenon GR500 GSM Cell Phone, Red (Unlocked)	$98.84	12/2/2011
PAYG	Unlocked	Walmart	Motorola EX128 Dual-SIM Cell Phone, Steel Gray (Unlocked)	$139.00	12/2/2011
PAYG	Unlocked	Walmart	Motorola Q9h GSM Cell Phone, Silver (Unlocked)	$99.00	12/2/2011
PAYG	Unlocked	Walmart	Nokia 6085 GSM Cell Phone, Black (Unlocked)	$59.94	12/2/2011
PAYG	Unlocked	Walmart	Samsung Blackjack 2 I617 GSM Cell Phone, Black (Unlocked)	$74.88	12/2/2011
PAYG	Unlocked	Walmart	Samsung Blackjack 2 I617 GSM Cell Phone, Pink (Unlocked)	$69.88	12/2/2011
PAYG	Unlocked	Walmart	Samsung Galaxy S I9000 Android GSM Cell Phone, Black (Unlocked)	$418.00	12/2/2011
PAYG	Unlocked	Walmart	Samsung S5230 GSM Cell Phone, Black (Unlocked)	$134.99	12/2/2011
PAYG	Unlocked	Walmart	Samsung T369 GSM Cell Phone, Black (Unlocked)	$69.88	12/2/2011
PAYG	Unlocked	Walmart	Sidekick LX 2009 PV300 GSM Cell Phone, Orchid (Unlocked)	$74.88	12/2/2011

Strategy Analytics' SpecTRAX database service, data pulled December 2, 2011. (Unlocked Handsets for sale as of December 2, 2011).

EXHIBIT C

Manufacturer	Model	Operator	Country	Sub_Price	MRSP
Apple	iPhone 3GS 8GB	AT&T Mobility	United States	$0.99	$375.00
Apple	iPhone 4 8GB	AT&T Mobility	United States	$99.99	$549.00
Apple	iPhone 4S 16GB	AT&T Mobility	United States	$199.99	$649.00
Apple	iPhone 4S 32GB	AT&T Mobility	United States	$299.99	$749.00
Apple	iPhone 4S 64GB	AT&T Mobility	United States	$399.99	$849.00
HTC	Inspire 4G	AT&T Mobility	United States	$99.99	$449.99
HTC	Status	AT&T Mobility	United States	$0.00	$349.99
LG	Phoenix	AT&T Mobility	United States	$19.99	$369.99
LG	Thrill 4G	AT&T Mobility	United States	$49.99	$399.99
Palm	Pixi Plus	AT&T Mobility	United States	$79.99	$349.99
Pantech	Crossover	AT&T Mobility	United States	$0.00	$349.99
RIM	BlackBerry Curve 9300	AT&T Mobility	United States	$29.99	$379.99
Sharp	FX Plus	AT&T Mobility	United States	$19.99	$299.99
Samsung	Captivate	AT&T Mobility	United States	$49.99	$449.99
Samsung	Focus Flash	AT&T Mobility	United States	$0.99	$399.99
Pantech	Pocket	AT&T Mobility	United States	$19.99	$369.99
Sony Ericsson	Eperia PLAY 4G	AT&T Mobility	United States	$29.99	$379.99
RIM	BlackBerry Curve 9360	AT&T Mobility	United States	$29.99	$379.99
Motorola	Atrix 4G	AT&T Mobility	United States	$49.99	$449.99
HTC	HD7S	AT&T Mobility	United States	$0.01	$449.99
AT&T	Impulse 4G	AT&T Mobility	United States	$29.99	$379.99
Pantech	Burst	AT&T Mobility	United States	$49.99	$399.99
Samsung	DoubleTime	AT&T Mobility	United States	$49.99	$399.99
RIM	BlackBerry Torch 9810	AT&T Mobility	United States	$49.99	$449.99
Samsung	Infuse 4G	AT&T Mobility	United States	$99.99	$449.99
Samsung	Focus	AT&T Mobility	United States	$49.99	$349.99
RIM	BlackBerry Torch 9860	AT&T Mobility	United States	$99.99	$449.99
Motorola	Atrix 2	AT&T Mobility	United States	$99.99	$449.99
Samsung	Galaxy S II	AT&T Mobility	United States	$149.99	$499.99
Samsung	Galaxy Captivate Glide	AT&T Mobility	United States	$149.99	$499.99
Samsung	Focus S	AT&T Mobility	United States	$199.99	$549.99
HTC	Vivid	AT&T Mobility	United States	$199.99	$549.99
RIM	BlackBerry Bold 9900	AT&T Mobility	United States	$199.99	$549.99
HTC	Titan	AT&T Mobility	United States	$199.99	$549.99
Samsung	Galaxy S II Skyrocket	AT&T Mobility	United States	$199.99	$549.99
LG	Nitro HD	AT&T Mobility	United States	$199.99	$549.99
Samsung	Galaxy Note	AT&T Mobility	United States	$299.99	$749.99
Apple	iPhone 4 8GB	Verizon Wireless	United States	$99.99	$549.00
RIM	BlackBerry Bold 9930	Verizon Wireless	United States	$229.99	$509.99
RIM	BlackBerry Curve 9330	Verizon Wireless	United States	$0.00	$299.99
RIM	BlackBerry Curve 9370	Verizon Wireless	United States	$99.99	$409.99
RIM	BlackBerry Torch 9850	Verizon Wireless	United States	$179.99	$459.99
Casio	G'zOne Commando	Verizon Wireless	United States	$179.99	$449.99
HTC	Droid Incredible 2	Verizon Wireless	United States	$99.99	$439.99
HTC	Rezound	Verizon Wireless	United States	$199.99	$649.99
HTC	Rhyme	Verizon Wireless	United States	$0.00	$439.99
HTC	ThunderBolt	Verizon Wireless	United States	$99.99	$569.99
HTC	Trophy	Verizon Wireless	United States	$29.99	$429.99
LG	Enlighten	Verizon Wireless	United States	$0.00	$329.99
LG	Revolution	Verizon Wireless	United States	$99.99	$559.99
LG	Spectrum	Verizon Wireless	United States	$199.99	$589.99
Motorola	Droid 3	Verizon Wireless	United States	$199.99	$459.99
Motorola	Droid Bionic	Verizon Wireless	United States	$149.99	$589.99
Motorola	Droid Pro	Verizon Wireless	United States	$0.00	$399.99
Motorola	Droid RAZR 16GB	Verizon Wireless	United States	$199.99	$599.99
Motorola	Droid RAZR 32GB	Verizon Wireless	United States	$249.99	$649.99
Motorola	Droid RAZR MAXX	Verizon Wireless	United States	$299.99	$649.99
Motorola	Droid X2	Verizon Wireless	United States	$49.99	$449.99
Motorola	Citrus	Verizon Wireless	United States	$0.00	$249.99
Palm	Pre 2	Verizon Wireless	United States	$149.99	$399.99
Pantech	Breakout	Verizon Wireless	United States	$49.99	$359.99
Samsung	Droid Charge	Verizon Wireless	United States	$149.99	$499.99
Samsung	Galaxy Nexus	Verizon Wireless	United States	$299.99	$649.99
Samsung	Illusion	Verizon Wireless	United States	$79.99	$329.99
Samsung	Stratosphere	Verizon Wireless	United States	$99.99	$409.99
Sony Ericsson	Xperia Play	Verizon Wireless	United States	$0.00	$449.99
RIM	BlackBerry Curve 9350	Bluegrass Cellular	United States	$59.99	$310.00
Sony Ericsson	Xperia Play	Bluegrass Cellular	United States	$0.01	$289.99

Frost and Sullivan: Mobile Wireless Communications Group
(Handset Manufacturer and MSRP Summary, February 9, 2012)

LG	Ignite	Bluegrass Cellular	United States	$99.99	$415.00
Motorola	Milestone X2	Bluegrass Cellular	United States	$99.99	$400.00
LG	Optimus 2	Bluegrass Cellular	United States	$39.99	$203.00
RIM	BlackBerry Torch 9850	Bluegrass Cellular	United States	$129.99	$460.00
RIM	BlackBerry Bold 9930	Bluegrass Cellular	United States	$199.99	$535.00
Samsung	Admire	Bluegrass Cellular	United States	$39.99	$213.00
Motorola	Milestone Plus	Bluegrass Cellular	United States	$79.99	$382.00
HTC	7 Pro	Bluegrass Cellular	United States	$79.99	$457.00
HTC	Merge	Bluegrass Cellular	United States	$99.99	$373.00
Samsung	Showcase i500	Bluegrass Cellular	United States	$99.99	$386.00
RIM	BlackBerry Curve 9330	Bluegrass Cellular	United States	$29.99	$325.00
Motorola	Milestone X	Bluegrass Cellular	United States	$99.99	$388.00
RIM	BlackBerry Style 9670	Bluegrass Cellular	United States	$69.99	$375.00
Samsung	Gem i100	Bluegrass Cellular	United States	$0.99	$192.00
HTC	Wildfire	Bluegrass Cellular	United States	$0.99	$240.00
HTC	Desire	Bluegrass Cellular	United States	$49.99	$355.00
LG	Marquee	Boost Mobile	United States	$0.00	$279.99
ZTE	Warp	Boost Mobile	United States	$0.00	$199.99
Samsung	Replenish	Boost Mobile	United States	$0.00	$99.99
Samsung	Transform Ultra	Boost Mobile	United States	$0.00	$229.99
Samsung	Prevail	Boost Mobile	United States	$0.00	$149.99
RIM	BlackBerry Curve 8530	Boost Mobile	United States	$0.00	$179.99
RIM	BlackBerry Bold II 9650	GCI Wireless	United States	$99.99	$499.99
RIM	BlackBerry Curve 8520	GCI Wireless	United States	$49.99	$299.99
RIM	BlackBerry Storm II 9550 - CDMA	GCI Wireless	United States	$99.99	$479.99
RIM	BlackBerry Storm II 9550 - GSM	GCI Wireless	United States	$99.99	$499.99
RIM	BlackBerry Bold II 9650 - GSM	GCI Wireless	United States	$99.99	$499.99
HTC	Incredible S	GCI Wireless	United States	$199.99	$529.99
HTC	Merge 6325 - CDMA	GCI Wireless	United States	$179.99	$499.99
HTC	Merge 6325 - GSM	GCI Wireless	United States	$179.99	$499.99
LG	Optimus 3D	GCI Wireless	United States	$199.99	$569.99
Samsung	Galaxy 3	GCI Wireless	United States	$99.99	$299.99
Samsung	Galaxy Ace	GCI Wireless	United States	$99.99	$349.99
Samsung	Galaxy Pro	GCI Wireless	United States	$99.99	$349.99
Samsung	Galaxy S II	GCI Wireless	United States	$299.99	$749.99
Sony Ericsson	Xperia Play	GCI Wireless	United States	$199.99	$549.99
Huawei	Asend II	Cricket	United States	$99.99	$179.99
RIM	BlackBerry Curve 8530	Cricket	United States	$79.99	$249.99
Samsung	Indulge	Cricket	United States	$129.99	$329.99
Samsung	Vitality	Cricket	United States	$149.99	$219.99
Huawei	Mercury	Cricket	United States	$179.99	$249.99
Samsung	Transfix	Cricket	United States	$129.99	$179.99
ZTE	Score	Cricket	United States	$69.99	$149.99
Apple	iPhone 4S 16GB	Cellular South	United States	$199.99	$649.00
Apple	iPhone 4S 32GB	Cellular South	United States	$299.99	$749.00
Apple	iPhone 4S 64GB	Cellular South	United States	$399.99	$849.00
Apple	iPhone 4 8GB	Cellular South	United States	$99.99	$549.00
Motorola	Milestone X2	Cellular South	United States	$79.99	$439.99
LG	Optimus 2	Cellular South	United States	$0.00	$239.99
Samsung	Repp R680	Cellular South	United States	$0.00	$209.99
Sony Ericsson	Xperia Play	Cellular South	United States	$19.99	$269.99
RIM	BlackBerry Bold Touch 9930	Cellular South	United States	$249.99	$559.99
Samsung	Galaxy S Showcase	Cellular South	United States	$19.99	$389.99
LG	Ignite	Cellular South	United States	$59.99	$439.99
Samsung	Admire R720	Cellular South	United States	$0.00	$259.99
Samsung	Gem	Cellular South	United States	$0.00	$249.99
HTC	7 Pro	Cellular South	United States	$199.99	$489.99
Motorola	Milestone Plus	Cellular South	United States	$99.99	$429.99
RIM	BlackBerry Curve 9330	Cellular South	United States	$49.99	$329.99
HTC	Merge	Cellular South	United States	$99.99	$359.99
LG	Axis	Cellular South	United States	$49.99	$349.99
RIM	BlackBerry Bold 9650	Cellular South	United States	$149.99	$499.99
Huawei	M835	Metro PCS	United States	$39.00	$79.00
Huawei	M835 tokidoki Edition	Metro PCS	United States	$49.00	$99.00
HTC	Wildfire S	Metro PCS	United States	$99.00	$179.00
Samsung	Admire	Metro PCS	United States	$59.00	$129.00
Samsung	Galaxy Attain 4G	Metro PCS	United States	$199.00	$249.00
Samsung	Galaxy Indulge	Metro PCS	United States	$199.00	$299.00
RIM	BlackBerry Curve 8530	Metro PCS	United States	$149.00	$149.00

LG	Esteem	Metro PCS	United States	$299.00	$349.00
RIM	BlackBerry Torch 9850	US Cellular	United States	$99.99	$549.99
RIM	BlackBerry Curve 9350	US Cellular	United States	$49.99	$399.99
HTC	7 Pro	US Cellular	United States	$129.99	$599.99
HTC	Hero S	US Cellular	United States	$0.00	$499.99
Motorola	Electrify	US Cellular	United States	$149.99	$599.99
Huawei	Ascend II	US Cellular	United States	$0.01	$199.99
HTC	Wildfire S	US Cellular	United States	$29.99	$329.99
Samsung	Repp	US Cellular	United States	$0.01	$269.99
HTC	Merge	US Cellular	United States	$99.99	$449.99
LG	Genesis	US Cellular	United States	$49.99	$449.99
Samsung	Galaxy S 4G	T-Mobile	United States	$0.00	$399.99
LG	DoublePlay	T-Mobile	United States	$0.00	$349.99
Nokia	Lumia 710	T-Mobile	United States	$39.99	$349.99
HTC	Amaze 4G	T-Mobile	United States	$179.99	$599.99
HTC	Wildfire S	T-Mobile	United States	$0.00	$249.99
Samsung	Gravity Smart	T-Mobile	United States	$0.00	$229.99
LG	Optimus T	T-Mobile	United States	$0.00	$219.99
Samsung	Dart	T-Mobile	United States	$0.00	$179.99
Nokia	Astound	T-Mobile	United States	$0.00	$99.99
T-Mobile	Sidekick 4G	T-Mobile	United States	$29.99	$329.99
RIM	BlackBerry Curve 8520	T-Mobile	United States	$29.99	$249.99
T-Mobile	G2	T-Mobile	United States	$49.99	$199.99
Samsung	Exhibit II 4G	T-Mobile	United States	$49.99	$349.99
RIM	BlackBerry Bold 9700	T-Mobile	United States	$79.99	$449.99
RIM	BlackBerry Curve 9360	T-Mobile	United States	$79.99	$379.99
T-Mobile	myTouch	T-Mobile	United States	$79.99	$279.99
T-Mobile	myTouch Q	T-Mobile	United States	$79.99	$279.99
HTC	Radar 4G	T-Mobile	United States	$99.99	$399.99
T-Mobile	G2x	T-Mobile	United States	$99.99	$399.99
T-Mobile	myTouch 4G	T-Mobile	United States	$99.99	$399.99
RIM	BlackBerry Bold 9780	T-Mobile	United States	$109.99	$429.99
HTC	Sensation 4G	T-Mobile	United States	$149.99	$449.99
T-Mobile	myTouch 4G Slide	T-Mobile	United States	$199.99	$499.99
Samsung	Galaxy S II	T-Mobile	United States	$229.99	$599.99
RIM	BlackBerry Bold 9900 4G	T-Mobile	United States	$299.99	$599.99
Samsung	Nexus S	Sprint	United States	$0.00	$549.99
Samsung	Transform Ultra	Sprint	United States	$0.00	$349.99
HTC	Evo 3D	Sprint	United States	$49.99	$549.99
Apple	iPhone 4S 16GB	Sprint	United States	$199.99	$649.00
Apple	iPhone 4S 32GB	Sprint	United States	$299.99	$749.00
Apple	iPhone 4S 64GB	Sprint	United States	$399.99	$849.00
Apple	iPhone 4 8GB	Sprint	United States	$99.99	$549.00
LG	Optimus S	Sprint	United States	$0.00	$299.99
Samsung	Conquer 4G	Sprint	United States	$49.99	$399.99
Samsung	Replenish	Sprint	United States	$0.00	$299.99
HTC	Evo Shift 4G	Sprint	United States	$99.99	$399.99
Samsung	Galaxy SII Epic 4G Touch	Sprint	United States	$199.99	$499.99
HTC	Evo Design 4G	Sprint	United States	$99.99	$399.99
Motorola	Photon 4G	Sprint	United States	$99.99	$549.99
LG	Marquee	Sprint	United States	$99.99	$349.99
HTC	Evo 4G	Sprint	United States	$99.99	$449.99
Samsung	Epic 4G	Sprint	United States	$99.99	$499.99
Samsung	Transform	Sprint	United States	$0.00	$349.99
Kyocera	Milano	Sprint	United States	$19.99	$299.99
Sprint	Express	Sprint	United States	$19.99	$249.99
Motorola	XPRT	Sprint	United States	$29.99	$399.99
RIM	BlackBerry Curve 3G	Sprint	United States	$29.99	$349.99
HTC	Arrive	Sprint	United States	$49.99	$449.99
RIM	BlackBerry Curve 9350	Sprint	United States	$49.99	$349.99
Motorola	Admiral	Sprint	United States	$99.99	$349.99
RIM	BlackBerry Tour 9630	Sprint	United States	$99.99	$249.99
RIM	BlackBerry Curve 8350i	Sprint	United States	$119.99	$419.99
RIM	BlackBerry Torch 9850	Sprint	United States	$149.99	$449.99
Motorola	Titanium	Sprint	United States	$169.99	$419.99
RIM	BlackBerry Bold 9930	Sprint	United States	$199.99	$499.99
Motorola	ES400S	Sprint	United States	$549.99	$899.99

EXHIBIT D

CHARLES E. SCHUMER
NEW YORK

COMMITTEES:
BANKING
DEMOCRATIC POLICY & COMMUNICATIONS
FINANCE
JUDICIARY
RULES

United States Senate

WASHINGTON, DC 20510

January 12, 2012

Randall L. Stephenson
Chairman, Chief Executive Officer and President
AT&T
208 South Akard Street
Dallas, TX 75202

Timothy P. McKone
Executive Vice President, Federal Relations
AT&T
1133 21st St., NW
Suite 900
Washington, DC 20036

Dear Mssrs. Stephenson and McKone:

I write today to follow up on our previous communication regarding the rampant theft of wireless devices. I understand that AT&T currently serves as the chair of the GSM Association's North America Committee on Security and Fraud, and that your committee will be meeting shortly. Therefore, I am requesting that you invite representatives of the NYPD to meet with you and other GSM carriers at your January 23rd meeting, and that you consult in some detail with them and other members of law enforcement to arrive at a cost-effective and safe solution to this rampant problem, such as the system that is in place in the United Kingdom.

As I noted in my letter of August 21, 2011, almost 50 percent of cell phone users in New York have experienced loss or theft of a cell phone at some point. New York City Police noticed an 18 percent increase in grand larceny between just January and March of 2011, and those rates have continued to climb since then. I, and they, remain interested in exploring the implementation of the system that is used in the United Kingdom, in which GSM carriers are able to share information about the serial (or other corresponding numbers) of handsets in order to disable them. Without this system, or something similar, the following consequences result:

(1) There is virtually no deterrence to stealing GSM-network handsets, because it is easy either to replace to SIM card or to unlock the device on a different GSM carrier's network;
(2) These preventable thefts expend valuable Police Department resources, both because they are so frequent and because each theft must be investigated via a subpoena or a search warrant.

In short, the ability simply to shut down each handset once it is stolen will protect the original purchaser's privacy, conserve police resources, and deter crime—crime that can and does lead to personal injury.

I am happy to facilitate your meeting with the NYPD in any way that would be helpful to you and the department.

Sincerely,

Charles E Schumer

Charles E Schumer
United States Senator

EXHIBIT E

METROPCS WIRELESS, INC., Plaintiff-counterdefendant, VS. VIRGIN MOBILE USA, L.P., Defendant-counterplaintiff.

Civil Action No. 3:08-CV-1658-D

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION

2009 U.S. Dist. LEXIS 88527

September 25, 2009, Decided
September 25, 2009, Filed

COUNSEL: [*1] For MetroPCS Wireless Inc, Plaintiff, Counter Defendant: William D Sims, Jr, LEAD ATTORNEY, Brian Edward Robison, Vinson & Elkins, Dallas, TX; W Scott Brown, Vinson & Elkins LLP, Houston, TX.

For Virgin Mobile USA LP, Defendant: Charles W Schwartz, LEAD ATTORNEY, Noelle M Reed, Skadden Arps Slate Meagher & Flom, Houston, TX; Anthony J Dreyer, PRO HAC VICE, Skadden Arps Slate Meagher & Flom LLP, New York, NY; Michelle L Davis, Skadden Arps Slate Meagher & Flom LLP, Midlothian, TX.

For Virgin Mobile USA LP, Counter Claimant: Charles W Schwartz, LEAD ATTORNEY, Skadden Arps Slate Meagher & Flom, Houston, TX; Anthony J Dreyer, PRO HAC VICE, Skadden Arps Slate Meagher & Flom LLP, New York, NY.

JUDGES: SIDNEY A. FITZWATER, CHIEF JUDGE, UNITED STATES DISTRICT JUDGE.

OPINION BY: SIDNEY A. FITZWATER

OPINION

MEMORANDUM OPINION AND ORDER

This is a lawsuit in which plaintiff-counterdefendant MetroPCS Wireless, Inc. ("MetroPCS") and defendant-counterplaintiff Virgin Mobile USA, L.P. ("Virgin Mobile") assert claims and counterclaims arising under federal and state law related to a dispute about MetroPCS' reflashing service, in which it reconfigures mobile handsets (cell phones) of other wireless service providers (including Virgin [*2] Mobile) to operate on MetroPCS' wireless network. Both parties move for partial summary judgment. For the reasons that follow, the court grants in part and denies in part both motions.

I

MetroPCS is a wireless telecommunications provider that offers wireless services primarily over its own network. [1] Customers pay a flat fee for unlimited use during a given month, without a long-term contract. Virgin Mobile, a competitor of MetroPCS, provides wireless telecommunications service via the digital nationwide facilities of Sprint Nextel Corp. (the "Virgin Mobile Service"). Virgin Mobile sells so-called "pay-as-you-go" plans that are marketed to customers (such as those with low income or poor credit) who might not be able to afford longer term contracts. Customers make advance purchases of airtime to be used on the Virgin Mobile Service, and they only pay for minutes they use. They access this service using handsets that Virgin Mobile sells and that bear the Virgin Mobile trademark "VIRGIN MOBILE" on their face and the VIRGIN MOBILE logo on the electronic display. These handsets also contain proprietary software that enables the handset to send and receive calls on the Virgin Mobile Service. [*3] The software also enables customers to access other features, such as downloadable ringtones, graphics, and other content.

1 As the court has stated in cases like *AMX Corp. v. Pilote Films*,

> [b]ecause both parties have filed motions for summary judgment, the court will principally recount only the evidence that is undisputed. If it is necessary to set out evidence that is contested, the court will do so favorably to the party who is the summary judgment nonmovant in the context of that evidence. In this way it will comply with the standard that governs resolution of summary judgment motions.

*AMX Corp. v. Pilote Films, 2007 U.S. Dist. LEXIS 40684, 2007 WL 1695120, at *1 n.2 (N.D. Tex. June 5)* (Fitzwater, J.) (citing *U.S. Bank Nat'l Ass'n v. Safeguard Ins. Co., 422 F.Supp.2d 698, 701 n.2 (N.D. Tex. 2006)* (Fitzwater, J.)), *modified in part on other grounds, 2007 U.S. Dist. LEXIS 57479, 2007 WL 2254943 (N.D. Tex. Aug. 7, 2007)* (Fitzwater, J.).

To attract potential customers (many of whom have low income and/or poor credit), Virgin Mobile sells its Virgin Mobile-branded handsets well below cost and market value. Virgin Mobile maintains that its sales practices are only economically feasible if it can recover its losses over time through the sale of [*4] airtime. If a customer purchases a Virgin Mobile-branded handset at an artificially low price and then reflashes the handset for service on a competitor's network, Virgin Mobile suffers financially. To protect its investment, recover the financial loss involved ($ 50 or more per handset), and obtain the economic advantage that it expects from its below-cost handset pricing policy, Virgin Mobile sells handsets that are manufactured with separate software and security measures that control access to its proprietary software and are designed to prevent alteration of that software and/or of the handset. It also sells each handset subject to terms and conditions--contained on product packaging [2] and in a "Terms of Service" booklet located inside the product packaging and on its website [3] --prohibiting alteration of the handset's hardware or software and use of the handset on any other company's wireless network.

D. App. 144.

Id. at 146.

2 The product packaging contains the following:

> THIS PHONE IS SOLD EXCLUSIVELY FOR USE WITH SERVICE THAT VIRGIN MOBILE USA PROVIDES. COMMERCIAL RESALE PROHIBITED EXCEPT BY AUTHORIZED VIRGIN MOBILE USA DEALERS. YOU MAY NOT ALTER ANY OF THE HARDWARE OR SOFTWARE [*5] IN THIS PHONE, OR EXPORT THIS PHONE FROM THE USA. BY PURCHASING THIS PHONE OR OPENING THIS PACKAGE, YOU ARE AGREEING TO THESE TERMS.

3 The "Terms of Service" booklet states, in part, on the first page:

> Virgin Mobile USA, LP's Terms of Service apply to the phones we sell and services we offer to our customers. By purchasing, activating or using a Virgin Mobile phone, you agree to these Terms of Service . . . . You agree not to use Virgin Mobile services in any way that is illegal, fraudulent or abusive, as determined by Virgin Mobile in its sole discretion. You may not alter any of the hardware or software on your Virgin Mobile phone. Virgin Mobile phones may not be purchased in bulk and sold to third parties.

The instant litigation involves MetroPCS' MetroFLASH service, which it introduced in June 2008. MetroFLASH enables owners of certain non-MetroPCS compatible code division multiple access handsets ("CDMA") to arrange for their phones to be "unlocked" or "reflashed" so that they receive wireless service solely from MetroPCS. The MetroFLASH service uses a software program to change values in the memory of the handsets. MetroPCS reflashes handsets only at a handset owner's request and [*6] only when a customer establishes wireless service with MetroPCS and agrees to various terms. [4]

4 MetroPCS alleges that prospective customers must read and sign several terms, including that (1) the unlocked handset will use a network other than that of the provider whose trademarks appear on the handset, (2) they may experience dif-

ferent coverage with MetroPCS' service, and (3) the unlocked handset will support only voice service and text messaging. MetroPCS also asserts that customers requesting the reflashing service must affirm that they (1) do not have a contract with any other wireless service provider, (2) are not participating in a scheme to acquire bulk quantities of subsidized handsets to resell at higher prices, and (3) will not use the original provider's trademarks in selling, offering for sale, distributing, or advertising their handsets.

Virgin Mobile maintains that, when MetroPCS induces Virgin Mobile customers to switch from Virgin Mobile to MetroPCS and, through the MetroFLASH service, to alter their Virgin Mobile-branded handsets for use on the MetroPCS network, MetroPCS infringes (directly and contributorily) and dilutes Virgin Mobile's trademarks and tortiously interferes [*7] with its existing contracts with existing and prospective customers. Virgin Mobile's trademark infringement counterclaims are based on the fact that, after Virgin Mobile-branded handsets are reflashed to operate on the MetroPCS network, they still bear Virgin Mobile's trademarks. Virgin Mobile complains that reflashing allows MetroPCS to free-ride on Virgin Mobile's effort and investment in developing, marketing, and distributing its wireless products and services, prevents Virgin Mobile from recouping its financial losses from below-cost sales of handsets, can lead to decreased functionality of handsets, and can damage handsets.

Virgin Mobile notified MetroPCS of its contention that MetroFLASH infringed Virgin Mobile's marks and that MetroPCS was thereby tortiously interfering with Virgin Mobile's contracts, and it demanded that MetroPCS cease and desist reflashing Virgin Mobile-branded handsets. After an exchange of letters in which Virgin Mobile persisted in its cease-and-desist demand, MetroPCS filed the instant lawsuit. MetroPCS seeks a declaratory judgment that it is not committing federal trademark infringement under *15 U.S.C. § 1114* (count one) or trademark dilution (count two); [*8] that Virgin Mobile's customer agreements are preempted by the Digital Millennium Copyright Act ("DMCA") exemption (count three); and that MetroPCS is not tortiously interfering with Virgin Mobile's contractual relations (count four) or prospective business relations (count five). Virgin Mobile counterclaims for tortious interference with existing contracts (counterclaim one) [5] and with prospective business relations (counterclaim two); direct and contributory trademark infringement under *15 U.S.C. § 1114* (counterclaim three); and trademark dilution under § 43(c) of the Lanham Act, *15 U.S.C. § 1125(c)* (counterclaim four).

5 Virgin Mobile refers to its counterclaims by the ordinal numbers "first," etcetera. The court, for ease of reference, will refer to them by the cardinal numbers "one," etcetera.

MetroPCS moves for partial summary judgment on the parties' respective trademark claims (counts one and two of MetroPCS's complaint and counterclaims three and four of Virgin Mobile's counterclaim). [6] Virgin Mobile moves for partial summary judgment on counterclaim one and counts three, four, and five. Both parties move for partial summary judgment after having conducted only limited discovery. [*9] Nevertheless, the court concludes that the record is sufficient to support its summary judgment rulings, which largely deny the parties' motions.

6 In its brief, MetroPCS requests that the court hear oral argument. This request is denied. *See* N.D. Tex. Civ. R. 7.1(g).

II

When a summary judgment movant will not have the burden of proof on a claim or counterclaim at trial, it need only point the court to the absence of evidence of any essential element of the opposing party's claim or defense. *See Celotex Corp. v. Catrett, 477 U.S. 317, 323, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986)*. Once it does so, the nonmovant must go beyond its pleadings and designate specific facts demonstrating that there is a genuine issue for trial. *See id. at 324*; *Little v. Liquid Air Corp., 37 F.3d 1069, 1075 (5th Cir. 1994)* (en banc) (per curiam). An issue is genuine if the evidence is such that a reasonable jury could return a verdict for the nonmovant. *Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986)*. The nonmovant's failure to produce proof as to any essential element renders all other facts immaterial. *Trugreen Landcare, L.L.C. v. Scott, 512 F.Supp.2d 613, 623 (N.D. Tex. 2007)* (Fitzwater, J.). Summary judgment is mandatory where the [*10] nonmoving party fails to meet this burden. *Little, 37 F.3d at 1076*.

III

The court first considers MetroPCS' contention that it is entitled to summary judgment dismissing Virgin Mobile's direct trademark infringement counterclaim (counterclaim three). [7]

7 The court addresses the contributory infringement component of Virgin Mobile's counterclaim three *infra* at § VIII.

The Lanham Act provides a cause of action for trademark infringement against one who "uses (1) any reproduction, counterfeit, copy[,] or colorable imitation of a mark; (2) without the registrant's consent; (3) in commerce; (4) in connection with the sale, distribution[,] or advertising of any goods; (5) where such use is likely to cause confusion or to cause mistake or to deceive." *Am. Rice, Inc. v. Producers Rice Mill, Inc., 518 F.3d 321, 329 (5th Cir. 2008)* (brackets in original; internal quotation marks and citation omitted); *see 15 U.S.C. § 1114(1)(a)*. MetroPCS maintains that it is entitled to summary judgment dismissing Virgin Mobile's direct infringement counterclaim because Virgin Mobile cannot establish either that MetroPCS "used" the Virgin Mobile mark "in commerce" or [*11] that its alleged use is likely to cause confusion.

IV

The court considers initially whether a reasonable trier of fact could find that MetroPCS' MetroFLASH service constitutes "use in commerce" of the Virgin Mobile mark.

A

Before turning to the specific issue of "use" under the Lanham Act, it is helpful to outline the two essential functions of trademark law.

First, trademark law aids consumers by assuring that products with the same trademark come from the same source. *See Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 163-64, 115 S. Ct. 1300, 131 L. Ed. 2d 248 (1995)* (observing that trademark law, "by preventing others from copying a source-identifying mark, reduce[s] the customer's costs of shopping and making purchasing decisions, for it quickly and easily assures a potential customer that *this* item--the item with this mark--is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past") (internal citation and quotation marks omitted) (emphasis in original). Second, trademark law protects the economic investments of the trademark owner. The law assures a producer "that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with [*12] a desirable product." *Id. at 164*. A trademark can serve these two purposes, however, only to the extent that it distinguishes a producer's goods. *See id.* (observing that "the source-distinguishing ability of a mark . . . permits it to serve these basic purposes" of trademark law). It is therefore apparent that the primary function of a trademark is to serve as a label--a mark that identifies and distinguishes a particular product.

B

In the context of altering a trademarked good, which both parties agree is the relevant context here, two additional principles emerge from the case law.

First, at least in the context of the *sale* of repaired or altered goods that still bear their original trademark, if it is deceptive to retain the trademark because the product is, after extensive repairs or alterations, essentially a new product, then the original trademark must be removed from the repaired or altered good. *See Champion Spark Plug Co. v. Sanders, 331 U.S. 125, 129, 67 S. Ct. 1136, 91 L. Ed. 1386 (1947)* ("Cases may be imagined where the reconditioning or repair would be so extensive or so basic that it would be a misnomer to call the article by its original name[.]").

> A trade-mark only gives the right to prohibit the use [*13] of it so far as to protect the owner's good will against the sale of another's product as his . . . . When the mark is used in a way that does not deceive the public [there is] no such sanctity in the word as to prevent its being used to tell the truth.

Prestonettes, Inc. v. Coty, 264 U.S. 359, 368, 44 S. Ct. 350, 68 L. Ed. 731, 1924 Dec. Comm'r Pat. 508 (1924). Thus where the repair or alteration is not so substantial as to create a new product, it is not deceptive for the product, which essentially remains the same, to retain its original mark, so long as it is clearly and distinctly sold as repaired or reconditioned rather than as new. *See Champion Spark Plug Co., 331 U.S. at 128* ("We are dealing here with second-hand goods. The spark plugs, though used, are nevertheless Champion plugs and not those of another make."); *Coty, 264 U.S. at 366-67, 369* (Where the defendant "buys the genuine perfume in bottles and sells it in smaller bottles," "we see no reason why [the original trademark] should not be used collaterally, not to indicate the goods, but to say that the trademarked product is a constituent in the article now offered as new and changed.").

Second, courts are reluctant to extend the Lanham Act's scope to cases where a trademarked [*14] product is repaired, rebuilt, or modified at the request of the product's owner. *See, e.g., Karl Storz Endoscopy-Am., Inc. v. Fiber Tech Med., Inc., 4 Fed. Appx. 128, 132 (4th Cir. 2001)* (per curiam) (discussing cases); *Cartier v. Symbolix, Inc., 454 F.Supp.2d 175, 185 (S.D.N.Y. 2006)* (concluding that the overall transaction, in which defendants added diamonds and polished a stainless steel Tank Francaise watch at the request of a customer who had previously purchased the watch, did not constitute "use in commerce" within the meaning of the Lanham Act); *U.S. Surgical Corp. v. Orris, Inc., 5 F. Supp. 2d 1201, 1209 (D. Kan. 1998)* (holding that where defendant reprocessed trademarked instruments by cleaning, resterilizing, and resharpening them, "such conduct does not constitute use of [plaintiff's] trademarks"). Although not always clearly articulated, the reason appears to lie in the "use" requirement for trademark infringement.

> "[U]se in commerce" appears to contemplate a trading upon the goodwill of or association with the trademark holder. Therefore, a mere repair of a trademarked good, followed by return of the good to the same owner who requested the repair or rebuild, does not constitute [*15] a "use in commerce" of the trademark under the Lanham Act.

Karl Storz Endoscopy-Am., Inc. v. Surgical Techs., Inc., 285 F.3d 848, 855 (9th Cir. 2002). In resale cases, where the defendant reconditions a product and then resells it with the original trademark on it, "the defendant uses the trademark not in its actual repair of the product, but in its sale of the item because consumers rely on the trademark and the quality it represents." *U.S. Surgical Corp., 5 F.Supp.2d at 1208*. For example, a consumer purchasing a used spark plug bearing a particular trademark would believe that the spark plug, although used, was nonetheless a product of the trademark owner and would make a purchasing decision accordingly. But because, in the context of a mere repair performed at the request of the good's owner, the owner is not relying on the trademark and the quality it represents, the defendant is not "using" the trademark in performing the repair. This reasoning does not extend, however, to owner-requested repairs where "the trademarked product is so altered that the substance of the transaction is a sale, and it would be misleading to sell the product without noting the alterations." *Karl Storz Endoscopy-Am., 285 F.3d at 856*. [*16] In such circumstances, the defendant presumably "uses" the trademark because he is effectively selling a new product under the original trademark to a purchaser (and/or user) who believes he is paying for (and/or using) a repaired good that is of the same make as that which is represented by the trademark. *See id.*

C

Whether MetroPCS's MetroFLASH service constitutes "use" of the Virgin Mobile trademark under the Lanham Act therefore pivots on the extent to which MetroFLASH alters a Virgin Mobile-branded handset. MetroPCS characterizes MetroFLASH--which uses a software program to reflash a handset by resetting certain values in the handset's internal memory, P. 2-3-09 App. 3--as a mere alteration of the handset at the owner's request in connection with establishing service with MetroPCS. MetroPCS posits that it does not completely rebuild any Virgin Mobile-marked handsets, and it does not use any Virgin Mobile marks in any advertisement or suggest in any way an affiliation or endorsement by Virgin Mobile.

Virgin Mobile responds that, through reflashing, MetroPCS effectively creates an entirely new product by causing a handset, whose core function is to operate on the Virgin Mobile Service, [*17] to operate only on the MetroPCS wireless network. Virgin Mobile also argues that the fact that MetroPCS recognizes that handsets may be damaged or rendered inoperable by reflashing undercuts MetroPCS' contention that it is merely repairing or making *de minimis* alterations to Virgin Mobile handsets.

The case law provides little guidance on whether the reflashing of a handset transforms it into a new product. Although supporting the general principle that the fundamental alteration of a trademarked product constitutes a "use in commerce" under the Lanham Act, the cases apply the principle in contexts very different from the one involved here. *See, e.g., Karl Storz Endoscopy-Am., 285 F.3d at 856* (holding that a reasonable jury could find that an endoscope was fundamentally transformed when every important part, including "the long shaft which is inserted into the patient's body cavity, the light post which focuses the light, the optic fibers that carry the light, the various lenses that magnify and focus the image, [and] the eyepiece through which the surgeon looks," is replaced); *Rolex Watch, U.S.A., Inc. v. Michel Co., 179 F.3d 704, 709-10 (9th Cir. 1999)* (holding that watch was fundamentally [*18] transformed where defendant refurbished and replaced "necessary and integral" parts of watch, including the bezel, which "serve[d] a waterproofing function," bracelet, which "a watch cannot be worn without," and dial, which "the watch cannot serve its purpose of timekeeping without.") (citing *Rolex Watch U.S.A., Inc. v. Meece, 158 F.3d 816, 825 (5th Cir. 1998))*.

MetroPCS presents evidence indicating that industry practice treats a handset as separate and distinct from the wireless service on which it operates. Specifically, MetroPCS proffers Virgin Mobile's statement to the U.S. Copyright Office that "more unlocked handsets are available now than in 2006 due to changes in industry practice which permit users to reuse their handsets on other carriers' networks after fairly carrying out their contractual obligations. For example, Sprint Nextel unlocks handsets after a customer's Sprint contract expires." P. 3-30-09 App. 40. MetroPCS offers evidence of Virgin Mobile's understanding that "a number of other carriers, especially those who provide wireless service under post-paid plans (i.e., with contractual term commitments), now may provide unsecured handsets upon purchase, offer to unlock [*19] handsets they have sold to such customers[,] or provide information for such customers to unlock the handsets themselves." *Id.* at 24-25. And

MetroPCS submits proof of contractual terms from various wireless service providers that allow unlocking handsets under certain conditions. *See id.* at 61 (Virgin Mobile) (Pay As You Go and Pay by Direct Debit) (contractual terms providing that customers may unlock handset for fee); 68 (Virgin Mobile) (Pay Monthly Contract) (contractual terms providing that customers may unlock handset for fee); 98 (Sprint) (providing Internet website and toll-free telephone number contacts for obtaining information and eligibility requirements for software program lock code for CDMA Sprint PCS phone); 106 (T-Mobile) ("A T-Mobile Device is designed to be used only with T-Mobile service; however, you may be eligible to have your Device reprogrammed to work with another carrier but you must contact us to do so."); 113 (Verizon Wireless)(providing the default service programming code information for persons who purchased certain wireless phones from Verizon Wireless and who want to reprogram phones for use with other wireless carrier networks).

The evidence MetroPCS [*20] submits also indicates, however, that handsets, while conceptually distinct from the wireless service on which they operate, are nonetheless typically linked to a wireless service provider, and that the industry default is to lock a handset to a particular network. *See id.* at 61 (Virgin Mobile) ("Handsets that are used to access our Services are locked to the Network."); 68 (same); 98 (Sprint) ("Your Device is designed to be activated on the Sprint network and in other coverage areas we make available to you. As programmed, it will not accept wireless service from another carrier."); 106 (T-Mobile) ("A T-Mobile Device is designed to be used only with T-Mobile service[.]"). Furthermore, the evidence suggests that, for prepaid handsets, the link between a handset and its service is even firmer. In the full context of Virgin Mobile's comment to the U.S. Copyright Office, Virgin Mobile stated:

> Wireless service providers who use post-payment plans [i.e. with contractual term commitments] necessarily have more flexibility in whether and when to unlock various handsets; if a customer elects a longer term contractual plan, these providers can adjust the subsidy applied for the handset. For [*21] example, a traditional post-paid carrier may be able to offer an unsecured device at two different prices with and without a two-year Contract--i.e., free and at a cost that reflects the provider's costs and includes a profit margin. On the other hand, while Virgin Mobile does offer more traditional post-payment plans, a majority of Virgin Mobile's customers use its services and its subsidized handsets without a long-term commitment through the pre-payment model. Unlike carriers working in the post-payment market who have this built-in ability to adapt locking and pricing schemes depending on what plan the customer selects, handset locks allow Virgin Mobile to continue providing subsidized handsets for use with the pre-payment plan.

Id. at 25-26. Consequently, considering the summary judgment evidence of industry practice, it is unclear whether reflashing a handset materially alters a handset so as to create a new product.

Besides industrypractice, MetroPCS points to common sense, contending that Virgin Mobile's assertion that the wireless service is the essence of the handset device is incongruous with the common sense understanding that an electronic device is distinct from the service [*22] it is configured to use. MetroPCS offers as an analogy the television set. According to MetroPCS, if a television set owner replaces satellite service with cable service and reconfigures the television's software to receive the cable signal, it is unreasonable to argue on this basis alone that a new television set has been created. MetroPCS therefore maintains that reflashing a handset to work on another wireless service does not create a new product.

The court concludes that MetroPCS' reliance on this reasoning is misplaced because--due to restrictions imposed by the current market place--handsets are not analogous to televisions.

> When people buy a television, they think, this is my television, I own it. If I want to move to broadcast, fine. If I want to move to cable, fine, satellite, fine. This is my property, I can do with it what I want. Telephones are nothing like that.
>
> Over 90 percent of [handset] retail is controlled by the four carriers. You can't go to any old store and buy a cell phone. Most of it goes through the bottleneck of the carriers and devices the carriers think are the right phones for Americans. This is a very unusual situation, and moreover, when you buy these phones, [*23] there are two things that tend to happen. First of all, they tend to be locked to the particular network you buy them from, one way or another; and second of all, it can be very difficult and very complicated to bring

> your phone with you when you leave one service and move to another service.

Wireless Innovation and Consumer Protection: Hearing Before the Subcomm. on Telecomm. and the Internet of the H. Comm. on Energy and Commerce, 110th Cong. 40 (2007) (statement of Professor Timothy Wu). Therefore, the court cannot say as a matter of law that reflashing does not create a new product.

In summary, the court holds that the summary judgment evidence creates a genuine issue of material fact whether reflashing fundamentally transforms a handset so as to create a new product and therefore constitutes "use" of Virgin Mobile's mark.

V

The court now considers whether a reasonable jury could find that MetroPCS's alleged use of Virgin Mobile's mark creates a likelihood of confusion.

A

The likelihood of confusion test inquires whether the defendant's use of the plaintiff's trademark would likely create confusion in the minds of potential buyers as to the source, affiliation, or sponsorship of the [*24] parties' products. *Oreck Corp. v. U.S. Floor Sys., Inc., 803 F.2d 166, 170 (5th Cir. 1986)*. The test is *likelihood* of confusion. Therefore, evidence of actual confusion is not necessary, *id. at 173*, notwithstanding that evidence of such confusion is the best evidence of likelihood of confusion, *Amstar Corp. v. Domino's Pizza, Inc., 615 F.2d 252, 263 (5th Cir. 1980)*. Likelihood of confusion is determined in the context of the typical purchaser of the product in question. *Armstrong Cork Co. v. World Carpets, Inc., 597 F.2d 496, 500 n.5 (5th Cir. 1979)*.

In this circuit, the determination of likelihood of confusion has traditionally turned upon consideration of certain factors. These were known in earlier cases as seven "digits-of-confusion," *see Sicilia Di R. Biebow & Co. v. Cox, 732 F.2d 417, 430 (5th Cir. 1984)*; *B.H. Bunn Co. v. AAA Replacement Parts Co., 451 F.2d 1254, 1262 (5th Cir. 1971)* ("we think of this case as a series of digits to be added together"), and have now evolved into these eight factors: (1) strength of the plaintiff's mark, (2) similarity of design between the marks, (3) similarity of the products, (4) identity of retail outlets and purchasers, (5) similarity of advertising [*25] media used, (6) the defendant's intent, (7) actual confusion, and (8) the degree of care exercised by potential purchasers. *Oreck Corp., 803 F.2d at 170*. In addition, in *Brandtjen & Kluge, Inc. v. Prudhomme, 765 F. Supp. 1551 (N.D. Tex. 1991)* (Fitzwater, J.), this court added three factors that can be applied when one sells an altered product that retains the trademark of the original manufacturer. These factors are: (9) the extent and nature of changes made to the product, (10) the clarity and distinctiveness of the labeling on the reconditioned product, and (11) the degree to which any inferior qualities associated with the reconditioned product would likely be identified by the typical purchaser with the manufacturer. *Id. at 1567*. [8] The elements are recognized in this circuit as being nonexclusive. *See, e.g., Conan Props., Inc. v. Conans Pizza, Inc., 752 F.2d 145, 149 (5th Cir. 1985)*. No one factor is dispositive, and different factors will weigh more heavily from case to case depending on the particular facts and circumstances involved. *Marathon Mfg. Co. v. Enerlite Prods. Corp., 767 F.2d 214, 218 (5th Cir. 1985)* (per curiam). The party suing for infringement need not support [*26] a claim by a majority of the factors. *Armco, Inc. v. Armco Burglar Alarm Co., 693 F.2d 1155, 1159 (5th Cir. 1982)*. While likelihood of confusion is typically a question of fact, summary judgment is proper if the "record compels the conclusion that the movant is entitled to judgment as a matter of law." *Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co., 550 F.3d 465, 474 (5th Cir. 2008)*.

> 8 The court derived these additional factors from *Coty, 264 U.S. 359, 44 S. Ct. 350, 68 L. Ed. 731, 1924 Dec. Comm'r Pat. 508*, and *Champion Spark Plug Co., 331 U.S. 125, 67 S. Ct. 1136, 91 L. Ed. 1386*, which addressed remedies in trademark infringement cases involving altered products.

B

There are two theories of confusion at issue here: post-sale confusion and initial interest confusion. [9] Post-sale confusion occurs when someone other than the purchaser encounters the product in some capacity and is confused as to the product's source, affiliation, or sponsorship. *See, e.g., Neles-Jamesbury, Inc. v. Valve Dynamics, Inc., 974 F. Supp. 964, 978 (S.D. Tex. 1997)* ("'[L]ikelihood of confusion . . . can be at any point in the chain of distribution or ownership, including post-sale confusion of third parties who later encounter the product.'" (quoting *Joy Mfg. Co. v. CGM Valve & Gauge Co., 730 F. Supp. 1387, 1394 (S.D. Tex. 1989))*); [*27] 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 23:5 (4th ed. 2009) ("The vast majority of courts recognize post-sale confusion, which may occur among those who see an infringing mark in use by . . . owner[s] who were not confused at the time they bought the product."). Trademark infringement can also be based on "confusion that creates initial consumer interest, even though no actual sale is finally completed as a result of the confusion." *Elvis Presley Enters., Inc. v.*

Capece, 141 F.3d 188, 204 (5th Cir. 1998) (internal quotation marks and citation omitted).

9 MetroPCS contends that Virgin Mobile can prove no point-of-sale confusion because MetroPCS conspicuously and unequivocally informs MetroFLASH customers that their reflashed handsets are configured to work on MetroPCS' network; Virgin Mobile does not argue to the contrary.

MetroPCS argues that Virgin Mobile cannot prove likelihood of confusion under either theory. Virgin Mobile contends that consumers who encounter the reflashed handsets--whether by observing others' use of the handsets, using the handsets themselves, or purchasing reflashed handsets in the secondary market--are likely to be confused as to [*28] the association of the handsets and service with Virgin Mobile and to mistakenly believe that the decreased functionality of the handsets is attributed to Virgin Mobile. Virgin Mobile posits that, even if purchasers of reflashed handsets in the secondary market eventually learn, prior to purchase, that the trademark holder is unaffiliated with MetroPCS or its MetroFLASH service, MetroPCS still benefits from the initial interest confusion engendered by the association of MetroPCS with the trademark holder. Because the court concludes below that there is a genuine dispute of fact regarding whether there is a likelihood of post-sale confusion, the court need not consider whether there is a likelihood of initial interest confusion.

VI

The court now analyzes the digits of confusion.

A

Digits one and two--strength of Virgin Mobile's trademark and similarity of design--are of little value here where the essence of the action is that MetroPCS is retaining Virgin Mobile's mark on an altered Virgin Mobile-branded product. *See Brandtjen & Kluge, Inc., 765 F. Supp. at 1567* (Where "[t]he essence of [the] action is that the rebuilder is selling under the manufacturer's trademark a rebuilt product of [*29] the manufacturer's original making," "[d]igits one and two offer little guidance."). It is undisputed at this point that the Virgin Mobile trademark is an arbitrary mark entitled to greatest protection, that MetroPCS does not remove the trademark from the branded handsets that it reflashes, and that MetroPCS does not provide any indication on the handsets that they have been unlocked and reflashed onto MetroPCS' wireless network.

B

Regarding the fourth and fifth digits--identity of retail outlets and purchasers and similarity of advertising media used--Virgin Mobile offers evidence that would permit a reasonable jury to find likelihood of confusion by the typical purchaser. Generally, "[d]issimilarities between the retail outlets for and the predominant consumers of [a plaintiff's and a defendant's respective] goods lessen the possibility of confusion, mistake, or deception." *Am. Century Proprietary Holdings, Inc. v. Am. Century Cas. Co., 295 Fed. Appx. 630, 637 (5th Cir. 2008)* (per curiam) (internal quotation marks omitted; second brackets in original). And "the greater the degree of overlap in the marketing approaches of the two entities, the greater the likelihood of confusion." *Id.* [*30] (internal quotation marks and citation omitted). Virgin Mobile submits unrefuted evidence that MetroPCS and Virgin Mobile both target their wireless services and products to consumers who tend to be lower income and lack strong credit, *see* D. App. 136, and both companies advertise and market through similar media, including selling products over the Internet, *see id.* at 6, 127-28, 137, 159-76.

C

The sixth factor examines MetroPCS' intent. Intent to pass off one's goods as those of another can provide compelling evidence of likelihood of confusion. *See Oreck Corp., 803 F.2d at 173.* A reasonable jury could not find that MetroPCS retains Virgin Mobile's mark on handsets reflashed through the MetroFLASH service with the intent of deriving benefit from Virgin Mobile's reputation. Therefore, this factor does not support a finding of likelihood of confusion.

D

The seventh factor is actual confusion. Although evidence of actual confusion is not necessary to demonstrate likelihood of confusion, *Amstar Corp., 615 F.2d at 263*, because actual confusion is "patently the best evidence of likelihood of confusion," *Falcon Rice Mill, Inc. v. Community Rice Mill, Inc., 725 F.2d 336, 345 (5th Cir. 1984)* [*31] (quoting *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc., 659 F.2d 695, 704 (5th Cir. Unit A 1981))*, it is probative of the absence of likelihood of confusion if the plaintiff fails to introduce evidence of even one instance in which a typical purchaser was confused, *Brandtjen & Kluge, Inc., 765 F. Supp. at 1568.* To show actual confusion, a plaintiff may rely on anecdotal instances of consumer confusion, or consumer surveys. *Scott Fetzer Co. v. House of Vaccums Inc., 381 F.3d 477, 486 (5th Cir. 2004)* (citing cases).

Virgin Mobile submits online sale listings in which owners of unlocked or reflashed handsets advertise the sale of their handsets in a manner that purportedly suggests that other companies are associated with MetroPCS. *See, e.g.*, D. App. 81-83 (seller on eBay advertises a "Kyocera K612 Strobe Metro PCS Camera

Cell Phone" and presents a stock photo image of a Virgin Mobile-branded handset); 91-96 (seller on eBay markets a "Brown Motorola W385 - Boost/MetroPCS cell phone" [10] that is "ready to use in Metro PCS network"); 105-07 (two listings on a "Wireless Dealer" website advertising a "Handset Verizon Metro PCS" and displaying photographs of phones that display the [*32] Verizon logo [11]). Virgin Mobile posits that these instances demonstrate actual and potential post-sale confusion occurring in the marketplace as a result of MetroPCS' reflashing. MetroPCS disputes the proposition that these listings constitute evidence of actual confusion. *See* P. 3-30-09 Reply Br. 22 ("Virgin Mobile has adduced no evidence of actual confusion.").

10 Boost is another wireless communications provider unaffiliated with MetroPCS.

11 Verizon is another wireless communications provider unaffiliated with MetroPCS.

The court holds that a reasonable jury could not find that these listings demonstrate actual confusion as to the relationship between MetroPCS and the branded carrier. *Cf. Moore Bus. Forms, Inc. v. Ryu, 960 F.2d 486, 491 (5th Cir. 1992)* ("The record contains evidence of instances in which both customers and employees were confused by [defendant's] use of the mark and had inquired as to whether the two companies were affiliated."); *Scott Fetzer Co., 381 F.3d at 487* (plaintiff submitted several affidavits recounting instances in which customers have said they thought defendant was an authorized dealer or repair shop). Assuming *arguendo* that the sale listings are themselves [*33] confusing, they still do not necessarily indicate actual confusion. At most, the sale listings evidence *potential* post-sale confusion.

E

The next factors the court evaluates are the third and ninth: similarity of products and the extent and nature of changes made to plaintiff's product. MetroPCS argues that the changes made to a handset through MetroFLASH are *de minimis* and in keeping with the industry practice of giving handset owners the freedom to choose among compatible networks. Virgin Mobile contends that MetroFLASH radically transforms the core function of a handset, which is to operate on a specific network, so that a reflashed Virgin Mobile-branded handset is new product. For the reasons explained *supra* in § IV(C), the court holds that there is a genuine dispute of fact regarding this factor.

F

The tenth factor is the clarity and distinctiveness of the labeling on the altered product. Although MetroPCS maintains that it advises purchasers of the MetroFLASH service that their handsets are reflashed to work on MetroPCS' network, it concedes that it does not label reflashed handsets. MetroPCS contends that a label directed at downstream purchasers would serve no purpose for these [*34] reasons: (1) MetroFLASH customers "pledge" in writing not to use the trademark identifiers of any original wireless provider of any unlocked handset in connection with the sale, offer for sale, distribution, or advertising of the reflashed handset; and (2) the nature of the handset market virtually guarantees that any handset reseller will disclose to prospective buyers the service it is configured to use; otherwise, a buyer would not know whom to contact for service. Virgin Mobile has presented evidence, however, that at least one of the MetroPCS checklists does not contain any such "pledge." D. App. 132. [12] And while the nature of the handset market may virtually guarantee that a handset reseller will disclose to prospective buyers the service the handset is configured to use, such disclosure does not guarantee that the buyer will not mistakenly believe that the service provider is affiliated with the trademark holder.

12 At most, under this checklist, the customer "agree[s] to remove the trademark identifiers of the original wireless provider on each Device that [he] submit[s] for flashing and authorize[s] [MetroPCS] to remove any such trademark prior to flashing each Device." D. [*35] App. 132.

G

The eighth factor is the degree of care exercised by potential purchasers. MetroPCS argues that handset consumers in the secondary market necessarily take care in selecting a handset that will work on a particular network, because "[a] handset purchaser who d[oes] not pay attention to network configuration and compatibility [may] end up with a device that [does] not function on his preferred network." P. 3-30-09 Reply Br. 22. As previously noted, however, even if the typical purchaser in the secondary market takes care to understand a handset's network configuration and is not confused about the network on which a particular handset is programmed to work, such care and understanding do not necessarily indicate a lack of confusion as to the relationship between the service provider and the trademark holder.

H

The eleventh factor is the degree to which the typical purchaser of the MetroFLASH service would attribute to Virgin Mobile any inferior qualities from reflashing. MetroPCS contends that the typical MetroFLASH customer knows that he is signing up for MetroPCS service and therefore cannot possibly be confused about this fact. Virgin Mobile, on the other hand, argues that [*36] where the trademark is visible and the outward appearance of the product appears identical, any downstream member of the public who may encounter a reflashed handset through personal use, perception of use by others, or subsequent purchase, is likely to believe that any changes or degradation of functionality and service are attributable to Virgin Mobile even though the actual operation of the product is properly attributed to MetroPCS. The court holds that a reasonable jury could find in Virgin Mobile's favor regarding this digit. [13]

13 Citing *Duluth News-Tribune v. Mesabi Publishing Co., 84 F.3d 1093 (8th Cir. 1996)*, MetroPCS contends that any changes to service or functionality caused by MetroFLASH are not likely to confuse an appreciable number of reasonably prudent handset consumers. The court holds that *Duluth News-Tribune* is distinguishable.

In *Duluth News-Tribune* there were specific numbers that demonstrated that the defendants' newspaper distribution methods ensured that the vast majority of ordinary purchasers would not be confused as to which newspaper they were buying.

> Approximately ninety-two percent of defendants' papers are sold through home subscriptions. Customers who [*37] spend the money and effort to subscribe to a newspaper are likely to know which paper they are buying, and to complain if they get the wrong one. Moreover, an additional two percent are sold through newspaper racks that clearly identify defendants as the paper's publication source. This leaves only six percent of papers sold as potential candidates for buyer confusion[.]

Id. at 1099. In the present case, by contrast, there are no such clear numbers in the summary judgment record. MetroPCS only contends that the number of potential customers who encounter a reflashed handset through non-owner personal use or perception of use by others is insignificant. MetroPCS also argues that, given the nature of the handset market, most consumers who purchase reflashed handsets in the secondary market are likely to know that MetroPCS supplies the wireless service. But this does not necessarily mean that the typical secondary purchaser will not be confused about the relationship between the trademark holder and MetroPCS and will not attribute any functionality problems to the trademark holder (in addition to MetroPCS).

I

Considering all the pertinent factors in toto, the court holds that a reasonable [*38] jury could find in favor of Virgin Mobile on the issue of likelihood of confusion. Accordingly, because genuine issues of material fact exist regarding whether MetroPCS "uses" Virgin Mobile's trademark for purposes of the Lanham Act and whether its use creates a likelihood of post-sale confusion, the court denies MetroPCS' motion for summary judgment on Virgin Mobile's direct infringement counterclaim.

VII

MetroPCS moves for summary judgment dismissing Virgin Mobile's trademark dilution counterclaim (counterclaim four), contending that it does not use any Virgin Mobile mark in commerce and that the Fifth Circuit has rejected the theory of dilution on which Virgin Mobile relies. For the reasons explained *supra* in § IV(C), the court rejects the first ground on which MetroPCS relies. The court now turns to the second ground.

A

"Trademark dilution is the weakening of the ability of a mark to clearly and unmistakably distinguish the source of a product." *Scott Fetzer Co., 381 F.3d at 489*. Under the Lanham Act, "the owner of a famous mark that is distinctive" "shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of [*39] a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark[.]" *15 U.S.C. § 1125(c)(1)*. "Blurring involves a diminution in the uniqueness or individuality of a mark because of its use on unrelated goods." *Scott Fetzer Co., 381 F.3d at 489*. "Tarnishing occurs when a trademark is linked to products of shoddy quality, or is portrayed in an unwholesome or unsavory context, with the result that the public will associate the lack of quality or lack of prestige in the defendant's goods with the plaintiff's unrelated goods." *Id.* (internal quotation marks and citations omitted).

> The dilution doctrine is concerned with granting protection to trademarks beyond that provided by the classic "likelihood of confusion" test. What if the respective uses of a mark are upon goods or services quite different and "unrelated" from those of plaintiff, such that a reasonably prudent buyer would *not* be likely to think that

> some connection or sponsorship existed? Under the likelihood of confusion test, the result is a judgment for defendant. There is no trademark infringement in the classic sense.
>
> However, when the likelihood of confusion tests is [*40] not met, the dilution theory raises the possibility of recovery based on an entirely different consumer state of mind. The dilution theory grants protection to strong, well-recognized marks even in the absence of a likelihood of confusion, if defendant's use is such as to be likely to diminish or dilute the strong identification value of the plaintiff's mark even while not confusing customers as to source, sponsorship, affiliation or connection. The underlying rationale of the dilution doctrine is that a gradual attenuation or whittling away of the value of a trademark, resulting from use by another, constitutes an invasion of the senior user's property right in its mark and gives rise to an independent commercial tort.

4 McCarthy, *supra*, § 24:72. "A given unauthorized use by defendant can cause confusion in some people's minds and in other people's minds cause dilution by blurring [or tarnishing], but in no one person's mind can both perceptions occur at the same time. Either a person thinks that the similarly branded goods or services come from a common source (or are connected or affiliated) or not." *Id.* "Both infringement by likelihood of confusion *and* dilution can coexist as legal [*41] findings only if it is proven that a significant number of customers are likely to be confused *and* that among a significant number of other customers who are not confused, the defendant's use will illegally dilute by blurring or tarnishment, but one state of mind does not overlap with the other in one person." *Id.*

The court notes that there is some question whether dilution theory is even applicable between competitors such as MetroPCS and Virgin Mobile. *See Scott Fetzer Co., 381 F.3d at 489* (noting that blurring and tarnishing occur when the same or a similar mark is used on *unrelated goods*); 4 McCarthy, *supra*, at § 24:101 ("The Federal Act is not statutorily limited to the traditional non-competitive setting which the concept of "dilution" [was] designed for by its creators. But the dilution doctrine was not designed for or intended to replace the traditional likelihood of confusion test used where the goods or services are competitive or related."); *15 U.S.C. § 1125(c)(1)* (trademark holder shall be entitled to an injunction against a person who dilutes its mark "*regardless of the presence or absence* of actual or likely confusion, *of competition*, or of actual economic injury." (emphasis [*42] added)). But because MetroPCS does not raise the issue, the court will assume that dilution theory is applicable.

B

Virgin Mobile alleges that MetroPCS, through its MetroFLASH service, has diluted the Virgin Mobile mark by both blurring and tarnishing. MetroPCS contends that Virgin Mobile's dilution counterclaim fails because it is indistinguishable from the claims that the Fifth Circuit found to be legally invalid in *Scott Fetzer Co.*

In *Scott Fetzer Co.* the trademark holder, Scott Fetzer, sued independent vacuum cleaner sales and repair shop House of Vacuums for, *inter alia*, diluting its KIRBY trademark. Scott Fetzer alluded to both blurring and tarnishing, but the Fifth Circuit found "its theory of dilution [to be] essentially one of tarnishing." *Scott Fetzer Co., 381 F.3d at 489.*

> When [*43] authorized service centers rebuild a Kirby vacuum cleaner, they use all new parts. House of Vacuums, however, sometimes uses used parts. This practice, says Scott Fetzer, makes Kirby vacuum cleaners rebuilt by House of Vacuums inherently inferior to Kirby vacuum cleaners rebuilt by authorized service centers. Scott Fetzer complains that customers will link the KIRBY mark to these purportedly inferior products.

Id. The Fifth Circuit held, however, that this theory of tarnishing is untenable.

> Trademark law does not entitle markholders to control the aftermarket in marked products. Granted, consumers will naturally associate a used, repaired, or rebuilt product with the mark it bears . . . . Moreover, consumers will often base their opinion of a product on the product's performance after months or years of use and periodic repairs. These phenomena are necessary and unremarkable offshoots of a robust aftermarket in trademarked products, not evidence of dilution. Concluding otherwise would convert anti-dilution laws into a tool for manufacturers to police independent repair shops and second-hand sales. Scott Fetzer's theory would al-

> low a markholder to cry dilution every time a resold or repaired [*44] product reflected poorly on the mark it bore. . . . We refuse to encourage anti-dilution law to metastasize in this manner.

Id. at 490 (citation omitted).

Virgin Mobile argues that *Scott Fetzer Co.* is inapposite because, unlike the House of Vacuums, MetroPCS is not an innocent second-hand store or repair shop; its conduct does not constitute an "unremarkable offshoot[] of a robust aftermarket in trademarked products," but instead creates a different market of inferior MetroPCS products that continue to bear the Virgin Mobile trademark.

In *Scott Fetzer Co.* and in *Ty, Inc. v. Perryman, 306 F.3d 509 (7th Cir. 2002)* (a Seventh Circuit case cited by *Scott Fetzer Co.* for the proposition that trademark law does not entitle markholders to control the aftermarket), there was no dispute that the defendant was trading in the plaintiff's genuine goods and therefore that it was not a misnomer for the defendant to reference the trademark. *See Scott Fetzer Co., 381 F.3d at 482* (defendant "typically repairs at least one Kirby vacuum cleaner per day and occasionally sells new and slightly used Kirby vacuum cleaners that he has acquired from Kirby distributors or through trade-ins"); *Ty, Inc., 306 F.3d at 512* [*45] (defendant sells Beanie Babies, "the very product to which the trademark sought to be defended against her 'infringement' is attached"). In fact, "reference to a used or repaired item's trademark will often be the only feasible way to announce the item's availability for sale." *Scott Fetzer Co., 381 F.3d at 490*; *Ty, Inc., 306 F.3d at 512* ("You can't sell a branded product without using its brand name, that is, its trademark."). Consequently, in the aftermarket of genuine trademarked goods, the two phenomena highlighted by the Fifth Circuit (i.e., the fact that consumers associate a used, repaired, or rebuilt product with the mark it bears, and that they will often base their opinion of a product on the product's performance after months or years of use and periodic repairs) naturally arise and do not constitute evidence of dilution. *See Scott Fetzer Co., 381 F.3d at 490.* Anti-dilution law, after all, is concerned about the rising consumer search costs that will result if the distinctiveness of a trademark as a signifier is reduced. *Ty, Inc., 306 F.3d at 510, 511* ("The fundamental purpose of a trademark is to reduce consumer search costs by providing a concise and unequivocal identifier [*46] of the particular source of goods.") (both blurring and tarnishing "reduce[] the distinctiveness of the trademark as a signifier of the trademarked product or service," either by associating a trademark with a variety of unrelated products (blurring) or associating the trademark with negative qualities (tarnishing), thereby increasing consumer search costs). Because aftermarket sellers of used genuine trademarked products accurately reference the trademark, and because consumer opinion of a product is often informed by the product's performance after months or years of use and periodic repairs, the aftermarket seller's use of the trademark does not increase consumer search costs or reduce the signaling power of the trademark.

The applicability of *Scott Fetzer Co.*, therefore, essentially turns on whether MetroPCS trades in genuine trademarked goods or whether, by reflashing branded handsets, it creates a new product. This is a factual issue that is in genuine dispute. *See supra* § IV(C). A reasonable jury could find that MetroPCS' MetroFLASH service tarnishes Virgin Mobile's mark. Accordingly, the court denies MetroPCS' motion for summary judgment in this respect. [14]

> 14 Because the court [*47] denies summary judgment on this basis, it need need not address whether *Scott Fetzer Co.* precludes Virgin Mobile's dilution by blurring counterclaim.

VIII

MetroPCS moves for summary judgment on Virgin Mobile's contributory infringement counterclaim (counterclaim three). It contends that Virgin Mobile has produced no evidence, and has failed to allege, that any MetroPCS' customers engage in direct infringement, and that MetroPCS lacks the requisite culpability for contributory infringement because MetroPCS' customers pledge not to infringe Virgin Mobile's marks.

A

Under the doctrine of contributory infringement,

> liability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another. Even if a manufacturer does not directly control others in the chain of distribution, it can be held responsible for their infringing activities under certain circumstances. Thus, if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorially responsible for any harm done [*48] as a result of the deceit.

Inwood Labs., Inc. v. Ives Labs., Inc., 456 U.S. 844, 853-54, 102 S. Ct. 2182, 72 L. Ed. 2d 606 (1982). "A party is liable for contributory infringement when it, 'with knowledge of the infringing activity, induces, causes or materially contributes to infringing conduct of another.'" *Alcatel USA, Inc. v. DGI Techs., Inc., 166 F.3d 772, 790 (5th Cir. 1999)* (quoting *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2d Cir. 1971))*. Thus a finding of contributory infringement is dependent upon the existence of an act of direct infringement. *See, e.g., Joy Techs., Inc. v. Flakt, Inc., 6 F.3d 770, 774 (Fed. Cir. 1993)* ("[E]ither form of 'dependent infringement' [active inducement or contributory infringement] cannot occur without an act of direct infringement."). To prevail on its contributory infringement claim, Virgin Mobile must adduce evidence that would permit a reasonable jury to find that someone committed an act of direct infringement and that MetroPCS either intentionally induced that person to commit the act or continued to supply reflashed handsets to that person when it knew or had reason to know that he was engaging in trademark infringement.

B

Virgin Mobile alleges [*49] that MetroPCS customers are using MetroFLASH to unlawfully sell reflashed Virgin Mobile handsets. MetroPCS contends that the evidence fails to show a direct act of infringement by MetroFLASH customers. Because the court grants summary judgment on another basis, it will assume *arguendo* that a reasonable jury could find direct infringement. Virgin Mobile must still adduce evidence that would enable a reasonable jury to find that MetroPCS possessed the requisite culpability for contributory infringement--i.e., that MetroPCS intentionally induced its customers to infringe or continued to reflash handsets for customers when it knew or had reason to know they were engaging in trademark infringement.

Citing *Medic Alert Foundation United States, Inc. v. Corel Corp., 43 F.Supp.2d 933, 939-40 (N.D. Ill. 1999)*, MetroPCS maintains that it has no reason to expect that any of its customers will commit direct infringement because its customers essentially pledge that they will not use MetroFLASH to commit direct infringement of any original wireless provider on any unlocked device. *See* P. 2-3-09 App. 4 (customers "affirm that . . . they will not use the trademark identifiers of any original wireless [*50] provider on any unlocked device in connection with the sale, offer for sale, distribution, or advertising of an unlocked handset[.]"); *15 U.S.C. § 1114(1)(a)* (prohibiting the use of a mark "in connection with the sale, offering for sale, distribution, or advertising of any goods or services"). In *Medic Alert* the defendant produced a CD with clipart images. Each CD included an "end-user license agreement that state[d], in part, that users may not use 'computer images related to identifiable individuals or entities in a manner which suggests their association with or endorsement of any product or service.'" *Id. at 935*. Despite this contractual term, a customer used a clipart image in a manner that allegedly infringed a trademark. *Id. at 935-36*. The trademark owner sued the CD maker for contributory infringement. The *Medic Alert* court granted summary judgment, holding that the license agreement established that the defendant lacked the culpability required for contributory infringement:

> Assuming without finding that [customer's] use of the [trademark] image constitutes trademark infringement, it is not enough to hold [defendant] liable as a matter of law for contributory infringement. In [*51] light of Corel's end-user agreement, it had no reason to expect that one of its software users would violate the contract and use one of its images for commercial use, until it was provided with actual information that someone had done so. . . . [Even after defendant was notified of customer's use of the trademark,] [e]ven then, there was no reason to think that more users would do so, again in light of its end-user agreement.

Id. at 940. MetroPCS therefore maintains that even if Virgin Mobile could prove that one of MetroPCS' customers directly infringed Virgin Mobile's mark, MetroPCS has absolved itself of liability by requiring its customers to pledge not to use MetroFLASH for direct trademark infringement.

Virgin Mobile counters that *Medic Alert* is distinguishable because there was nothing in that case to lead the defendant to suspect any directly infringing activity by its customer. Virgin Mobile posits that MetroPCS, by contrast, was put on notice of its customers' infringement by Virgin Mobile's cease-and-desist letters and by the open and notorious activity of MetroPCS customers on the Internet. Virgin Mobile also maintains that MetroPCS' customer pledges were not consistently [*52] required because at least one of the MetroPCS checklists does not contain any such pledge. *See* D. App. 132. According to Virgin Mobile, that form at most provides that the customer "agree[s] to remove the trademark identifiers of the original wireless provider on each Device that [he] submit[s] for flashing and authorize[s] [MetroPCS] to remove any such trademark prior to flashing each Device." *Id.* Virgin Mobile therefore contends that MetroPCS cannot insulate itself from a finding of contributory infringement based on customer pledges that are not consistently required and do not prevent infringing resale of Virgin Mobile handsets.

Although the record reflects a genuine fact issue regarding whether MetroPCS customer pledges were consistently required, MetroPCS is nonetheless entitled to summary judgment because this fact issue is immaterial. To be held liable for contributory trademark infringement, MetroPCS must have either intentionally induced its MetroFLASH customers to directly infringe the original wireless provider's trademark or continued to offer its MetroFLASH service to particular customers whom it knew were committing acts of infringement. *See Inwood Labs., Inc., 456 U.S. at 854-55* [*53] ("[W]hether these petitioners were liable for the pharmacists' infringing acts depended upon whether, in fact, the petitioners intentionally induced the pharmacists to mislabel generic drugs or, in fact, continued to supply cyclandelate to pharmacists whom the petitioners knew were mislabeling generic drugs."); *Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 439 n.19, 104 S. Ct. 774, 78 L. Ed. 2d 574 (1984)* (noting that standard for contributory trademark infringement is whether defendant intentionally induced its customers to make infringing uses of plaintiff's trademarks or continued to supply its products to identified individuals known by it to be engaging in continuing infringement of plaintiff's trademarks). *Medic Alert* does not hold otherwise. *See Medic Alert, 43 F.Supp.2d at 940* ("The standard is not whether [defendant] 'could reasonably anticipate' possible infringement, but rather whether it knew or had reason to know that a third party is engaging in trademark infringement and continued to sell its products to *that third-party*.") (emphasis added)). Here, Virgin Mobile does not allege or offer any evidence that MetroPCS intentionally induced its customers to resell their branded handsets. [*54] And assuming *arguendo* that Virgin Mobile has adduced evidence that would enable a reasonable jury to infer that some MetroFLASH customers are reselling their reflashed branded handsets, Virgin Mobile has neither alleged nor presented any evidence that MetroPCS continues to reflash handsets for those particular customers whom it knows are reselling their branded handsets. At most, Virgin Mobile has proffered evidence that MetroPCS continues to offer its MetroFLASH service to the general public when it has reason to know that some past MetroFLASH customers have resold their reflashed handsets. *See, e.g.*, D. 2-23-09 Br. 43 ("MetroPCS has reason to know that customers who have handsets reflashed via MetroFLASH are engaging in direct trademark infringement by re-selling those handsets in secondary markets."). This is insufficient of itself to meet the culpability standard under *Inwood. See Inwood Labs., Inc., 456 U.S. at 854 n.13* (The standard is *not* whether defendant "could reasonably anticipate" possible infringement.). The court accordingly grants MetroPCS' motion for summary judgment on Virgin Mobile's contributory infringement counterclaim. [15]

> 15 MetroPCS' request for a declaratory [*55] judgment that Virgin Mobile cannot establish a claim against it for contributory trademark infringement (part of count one) is therefore moot.

IX

Virgin Mobile moves for summary judgment on MetroPCS' claim in count three, in which it seeks a declaratory judgment that Virgin Mobile's contracts are preempted by the exemption in the DMCA. [16] This exemption provides, in pertinent part:

> during the period from November 27, 2006 through October 27, 2009, the prohibition against circumvention of technological measures that effectively control access to copyrighted works set forth in *17 U.S.C. 1201(a)(1)(A)* shall not apply to persons who engage in noninfringing uses [of copyrighted works such as] . . . [c]omputer programs in the form of firmware that enable wireless telephone handsets to connect to a wireless telephone communication network, when circumvention is accomplished for the sole purpose of lawfully connecting to a wireless telephone communication network.

37 C.F.R. § 201.40(b)(5) (2009).

> 16 MetroPCS contends that Virgin Mobile bears the burden of proof on MetroPCS' declaratory judgment claims. The court need not decide this question. Even if it assumes that Virgin Mobile has the burden [*56] of proof, it would hold, for the reasons explained, that Virgin Mobile has established beyond peradventure that Virgin Mobile's contracts are not preempted. *See, e.g., Bank One, Tex., N.A. v. Prudential Ins. Co. of Am., 878 F. Supp. 943, 962 (N.D. Tex. 1995)* (Fitzwater, J.) (holding that to be entitled to summary judgment on matter for which it will have burden of proof at trial, party "must establish 'beyond peradventure all of the essential elements of the claim or defense.'" (quoting *Fontenot v. Upjohn Co., 780 F.2d 1190, 1194 (5th Cir. 1986))*.

To demonstrate that Virgin Mobile's alleged contract rights are preempted by the federal Copyright Act (of which DMCA is a section), MetroPCS must show that the state-law claim (1) "falls within the subject matter of copyright," as defined by *17 U.S.C. § 102*, and (2) "protects rights that are equivalent to any of the exclusive rights of a federal copyright, as provided in *17 U.S.C. § 106*." *Carson v. Dynegy, Inc., 344 F.3d 446, 456 (5th Cir. 2003)* (internal quotation marks and citations omitted). The test for evaluating the equivalency of rights is commonly referred to as the "extra element" test. *Id.* (citing *Alcatel USA, 166 F.3d at 787*). [*57] This test requires that if one or more qualitatively different elements are required to constitute the state-created cause of action being asserted, then the right granted under state law does not lie within the general scope of copyright, and there is no preemption. *Id.*

Here, Virgin Mobile posits that its alleged contractual rights are qualitatively different from those granted by copyright. The court agrees. Exclusive rights of federal copyright include the right to do or authorize (1) the reproduction of a copyrighted work in copies or phonorecords, (2) preparation of derivative works based upon the copyrighted work, and (3) distribution of copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership. *17 U.S.C. § 106*. Virgin Mobile's tortious interference counterclaim, on the other hand, seeks to enforce its alleged contractual rights to prevent its handset purchasers from altering the hardware and software contained in the Virgin Mobile handsets and from using the Virgin Mobile handsets on another company's wireless service. These rights, established by contract, are qualitatively different from those granted by copyright.

> Rights "equivalent [*58] to any of the exclusive rights within the general scope of copyright" are rights established *by law*--rights that restrict the options of persons who are strangers to the [copyright holder]. Copyright law forbids duplication, public performance, and so on, unless the person wishing to copy or perform the work gets permission; silence means a ban on copying. A copyright is a right against the world. Contracts by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create "exclusive rights."

ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1454 (7th Cir. 1996); *see also Taquino v. Teledyne Monarch Rubber, 893 F.2d 1488, 1501 (5th Cir. 1990)* ("A right is equivalent if the mere act of reproduction, distribution, or display infringes it. This action for breach of contract involves an element in addition to mere reproduction, distribution or display: the contract promise made by Taquino, therefore, it is not preempted." (citations omitted)). MetroPCS, in fact, makes no effort in its response brief to argue otherwise. The court therefore holds that MetroPCS' claim for declaratory judgment regarding preemption fails as a matter of law, and it dismisses [*59] count three of MetroPCS' complaint.

X

The court now considers Virgin Mobile's motion for summary judgment dismissing MetroPCS' claims for declaratory judgment that it does not tortiously interfere with Virgin Mobile's contractual relations or prospective business relations (counts four and five).

The federal Declaratory Judgment Act ("DJA"), *28 U.S.C. §§ 2201, 2202*, does not create a substantive cause of action. *See Lowe v. Ingalls Shipbuilding, A Div. of Litton Sys., Inc., 723 F.2d 1173, 1179 (5th Cir. 1984)* ("The federal Declaratory Judgment Act . . . is procedural only[.]") (citing *Skelly Oil Co. v. Phillips Petroleum Co., 339 U.S. 667, 671, 70 S. Ct. 876, 94 L. Ed. 1194 (1950))*. A declaratory judgment action is merely a vehicle that allows a party to obtain an "early adjudication of an actual controversy" arising under other substantive law. *Collin County, Tex. v. Homeowners Ass'n for Values Essential to Neighborhoods, (HAVEN), 915 F.2d 167, 170 (5th Cir. 1990)*. Federal courts have broad discretion to grant or refuse declaratory judgment. *Torch, Inc. v. LeBlanc, 947 F.2d 193, 194 (5th Cir. 1991)*. "Since its inception, the [DJA] has been understood to confer on federal courts unique and substantial discretion in [*60] deciding whether to declare the rights of litigants." *Wilton v. Seven Falls Co., 515 U.S. 277, 286, 115 S. Ct. 2137, 132 L. Ed. 2d 214 (1995)*. The DJA is "an authorization, not a command." *Pub. Affairs Assocs., Inc. v. Rickover, 369 U.S. 111, 112, 82 S. Ct. 580, 7 L. Ed. 2d 604 (1962)*. It gives federal courts the competence to declare rights, but it does not impose a duty to do so. *Id.* Although "the district court's discretion is broad, it is not unfettered." *Travelers Ins. Co. v. La. Farm Bureau Fed'n, Inc., 996 F.2d 774, 778 (5th Cir. 1993)*. The court cannot dismiss a declaratory judgment action "'on the basis of whim or personal disinclination.'" *Id.* (quoting *Rowan Cos. v. Griffin*, 876F.2d 26, 28-29 (5th Cir. 1989)).

Both parties acknowledge that generally "[i]t is not the purpose of the federal [DJA] to enable a prospective defendant in tort actions to obtain a declaration of non-liability." *United of Omaha Life Ins. Co. v. Region 19 Educ. Serv. Ctr., 2002 U.S. Dist. LEXIS 10152, 2002 WL 1285204, at *3 (N.D. Tex. June 4, 2002)* (Fitzwater, J.) (citing cases). "The purpose of the [DJA] is not the declaration of non-liability for past conduct, but to settle actual controversies before they ripen into violations of law or breach of some contractual duty and to prevent the accrual [*61] of avoidable damages to those uncertain of rights." *Id.* (citing cases). The principal justification for the general rule that a prospective tort defendant may not obtain a declaration of nonliability is that it would be a perversion of the DJA to compel potential personal injury plaintiffs to litigate their claims at a time and in a forum chosen by the apparent tortfeasor. *See Certain Underwriters at Lloyd's, London v. A & D Interests, Inc., 197 F.Supp.2d 741, 750 (S.D. Tex. 2002)* (citing *Cunningham Bros., Inc. v. Bail, 407 F.2d 1165, 1167 (7th Cir. 1969))*.

MetroPCS posits that while its declaratory judgment claims lie in tort, it should be able to pursue them because it is seeking declaratory relief regarding past and future conduct. Virgin Mobile counters that, regardless whether the conduct is past or future, the DJA cannot be used to obtain a declaration of nonliability in tort actions.

The court concludes in its discretion that MetroPCS' declaratory judgment claims should be dismissed, and that the issues they present should be litigated in the context of Virgin Mobile's counterclaims one and two. Although MetroPCS may in part be seeking declaratory relief regarding future conduct, [*62] it is doing so only after having been accused of committing torts and continuing to engage in conduct that is allegedly tortious. In large measure it is not seeking to settle an actual controversy before it ripens into a violation of the law, but to obtain a judgment that will substantially involve a declaration that past conduct was not tortious. The controversy has a prospective component because MetroPCS is continuing to engage in conduct that Virgin Mobile contends is tortious, not because MetroPCS is seeking relief that would enable it to settle an actual controversy before it ripens into a violation of the law. The controversy between these parties has already ripened and is full blown.

Accordingly, the court dismisses counts four and five of MetroPCS' claims against Virgin Mobile.

XI

Virgin Mobile moves for summary judgment on its counterclaim for tortious interference with existing contracts (counterclaim one).

A

The parties agree that Texas law governs Virgin Mobile's tortious interference counterclaim. To prevail on this claim, Virgin Mobile must prove by a preponderance of the evidence each of the following elements: (1) the existence of a contract subject to interference; (2) [*63] a willful and intentional act of interference with the contract; (3) that such interference proximately caused injury; and (4) that actual damage or loss occurred. *Amigo Broad., LP v. Spanish Broad. Sys., Inc., 521 F.3d 472, 489 (5th Cir. 2008)*. Because Virgin Mobile will have the burden of proof on this counterclaim at trial, to prevail on summary judgment, it must establish beyond peradventure each of these essential elements.

B

The first element that Virgin Mobile must establish is the existence of a contract that prohibits the handset owner from having his handset reflashed by MetroPCS. Virgin Mobile alleges that the terms and conditions found on the outside of its handset packaging and the terms of service found within the packaging constitute an enforceable contract, subjecting the Virgin Mobile-branded handset to certain restrictions, including that the customer may not alter any hardware or software in the phone, and that the customer may use the phone only on the Virgin Mobile service. MetroPCS counters that, even if the terms and conditions found on Virgin Mobile's packaging constitute a valid contract, Virgin Mobile has nonetheless failed to adduce any evidence to show that [*64] any MetroFLASH customer acquired his Virgin Mobile handset in a transaction involving Virgin Mobile's box-top or shrinkwrap language, rather than in a secondary market transaction where privity would be lacking between the customer and Virgin Mobile. Virgin Mobile posits that such evidence is unnecessary because the initial owner of a Virgin Mobile handset necessarily acquires the handset subject to the contract restrictions located on and inside product packaging, and should a subsequent party later acquire the handset (e.g., by gift or second-hand sale), that party would likewise be subject to the same restrictions because the initial owner cannot grant greater rights to the handset than he actually possesses. In other words, the parties dispute whether the mere possession of a Virgin Mobile-branded handset necessarily indicates the existence of a contract between Virgin Mobile and the possessor subject to interference by MetroPCS.

The court holds that it does not. Virgin Mobile has cited no authority, and the court has found none, that supports the proposition that Virgin Mobile and the original handset purchaser can create, through the purchaser's acceptance of the packaging terms [*65] and conditions, restrictions that run with the handset so as to bind all subsequent owners of the handset. Indeed, it appears that a handset, as personal property, can have no covenants that "run with" it, and that any contractual restrictions that Virgin Mobile may place on the handset require privity with the handset owner. *See Jones v. Cooper Indus., Inc., 938 S.W.2d 118, 123 (Tex. App. 1996, writ denied)* ("Since a patent is to be treated as personal property, there can be no covenants that 'run with' the patent."); [17] *Montgomery v. Creager, 22 S.W.2d 463, 466 (Tex. Civ. App. 1929, no writ)* ("It is true that equity recognizes a kind of covenants which do not run with land, but are nevertheless binding upon subsequent owners of property who acquire same with notice. But even that kind of covenant must relate to or concern the land or its use or enjoyment." (internal quotation marks and citation omitted)).

> 17 Virgin Mobile contends that *Jones* is inapposite because Virgin Mobile, unlike the patent assignor in *Jones*, reserved rights in the personal good. The court disagrees. In *Jones* the patent owner sold title to the patents; "the money described as 'royalties' in the [sale agreement] [*66] was actually consideration for the assignment, and [the patent owner] retained nothing by way of his conveyance." *Jones, 938 S.W.2d at 123*. Similarly, Virgin Mobile sold title to the handsets; it did not merely license them to its customers. The use restrictions contained in the terms and conditions constituted consideration for the sale, and Virgin Mobile retained nothing by way of its conveyance. *Jones* stands for the applicable proposition that whatever obligations Virgin Mobile may have received as consideration from the original purchaser, such obligations are personal to that purchaser and do not run with the handset.

Virgin Mobile contends that subsequent owners of the handset who acquire it by gift or second-hand sale cannot avoid the handset restrictions because the initial owner cannot grant greater rights to the handset than he actually possesses. The principle that Virgin Mobile references--that "assignees stand in the shoes of their assignors and have no greater rights"--is taken from assignment cases, specifically one in which a liability insurer assigned its claims against an insurance broker to a third party, *see Equitable Recovery, L.P. v. Heath Insurance Brokers of Texas, L.P., 235 S.W.3d 376 (Tex. App. 2007, no writ)*, [*67] and a case in which a book publisher assigned its contractual rights vis-a-vis the copyright owner to a third party, *see In re Law Book Co., 239 A.D. 363, 267 N.Y.S. 169 (1st Dep't 1933)*. Virgin Mobile offers no reason, however, why the principles of assignment should apply to the sale of a personal good in the secondary market. Indeed, the cited cases suggest the contrary. As one case reasons, "[t]he situation of an assignee . . . is analogous to that of a trustee in bankruptcy." *Id.* At 365. Just as a trustee stands in the shoes of the bankrupt, the assignee stands in the shoes of the assignor. *Id.* The situation of a purchaser of a good in the secondary market (vis-a-vis the original purchaser and promisor), however, is different. The subsequent purchaser does not stand in the shoes of the original purchaser to assume the original purchaser's place in the contract with the promisee. *See Microsoft Corp. v. Harmony Computers & Elecs., Inc., 846 F. Supp. 208, 214 (E.D.N.Y. 1994)* (noting that subsequent purchaser, not being party to contract, is a "complete stranger[]" to the promisee). Virgin Mobile cites *Microsoft Corp.* for the premise that subsequent purchasers are subject to the same restrictions [*68] as are the original purchasers. But the *Microsoft Corp.* court was careful to note that the reason for the subsequent purchasers' liability lay in copyright law, *not contract law*. The defendants in *Microsoft Corp.* purchased Microsoft products from authorized Microsoft licensees and then sold the products on a stand-alone basis, in violation of the licensing agreement between Microsoft and its licensees. In determining that the purchasers were subject to the same licensing restrictions as were the licensees, the court explained:

> [Microsoft's] claim that defendants exceeded the scope of its license agreement states a claim for copyright infringement rather than breach of contract. Not being parties to any license agreement with Microsoft, defendants are "complete strangers" to Microsoft, and their violations of the licensing restrictions must of necessity be seen as claims arising under the copyright laws rather than the law of contracts.

Id. Therefore, contrary to Virgin Mobile's assertions, *Microsoft Corp.* indicates that a subsequent purchaser of a Virgin Mobile-branded handset stands as a complete stranger to Virgin Mobile and is not bound by any contract that Virgin Mobile may have [*69] entered into with the original purchaser.

Similarly, *Motise v. America Online, Inc., 346 F.Supp.2d 563 (S.D.N.Y. 2004)*, cited by Virgin Mobile as applying the assignment principle in an "analogous situation," is equally unavailing. In *Motise* the court rejected the plaintiff's argument that he was not bound by the forum selection clause of the defendant Internet provider's terms of service because he was merely using his step-father's customer account. The court reasoned:

> Plaintiff was able to utilize the Defendant's service only because his step-father, Mr. Perretta, accepted the terms of service. He was, as such, a sub-licensee of privileges that the Defendant conditionally granted to Mr. Perretta. The Plaintiff could not, therefore, have greater rights than Mr. Perretta.

Id. at 566. In other words, the *Motise* court applied the assignment principle in a context where the original purchaser of the Internet service entered into a contract with the Internet service provider and then allowed a third party to use his account. This context is analogous to an assignment because the user stands in the shoes of the account holder to assume his place in the contract with the service provider. [*70] It is not, however, analogous to a secondary-market sale, where there is a *new owner*--not merely someone who stands in the shoes, and assumes the privity, of the owner. Accordingly, the reasoning of *Motise*, like the reasoning of the assignment cases, is inapposite.

Virgin Mobile cites three cases--*Burcham v. Expedia, Inc., 2009 U.S. Dist. LEXIS 17104, 2009 WL 586513 (E.D. Mo. Mar. 6, 2009)*, *Adsit Co. v. Gustin, 874 N.E.2d 1018 (Ind. Ct. App. 2007)*, and *Westendorf v. Gateway 2000, Inc., 2000 Del. Ch. LEXIS 54, 2000 WL 307369 (Del. Ch. Mar. 16, 2000)*--in support of its contention that initial contracts can bind secondary purchasers despite a lack of privity. In two of the cases, however, the court held that certain contractual terms were binding on the plaintiff *because* there was privity of contract, not despite an absence of privity. *See Burcham, 2009 U.S. Dist. LEXIS 17104, 2009 WL 586513, at *2* (holding in case where plaintiff booked hotel room using Expedia website that plaintiff was bound by website's terms and conditions if "it [could] be shown objectively that [plaintiff and defendant's] minds met and they assented to all essential terms"); *Adsit, 874 N.E.2d at 1023* (determining in case where plaintiffs purchased seat covers from Internet retailer that clickwrap [*71] agreement was enforceable because plaintiffs had reasonable notice of, and manifested assent to, the clickwrap agreement). And in the third case, the court held that the plaintiff's argument that she was not a "purchaser" amounted to "mere semantics." *Westendorf, 2000 Del. Ch. LEXIS 54, 2000 WL 307369, at *4*. It reasoned that,

> [g]iven the relationship between Gateway and plaintiff--plaintiff bought a Gateway computer in December of 1997, and received a Gateway computer in August 1998, which she quickly used and retained over thirty days--equity dictate[d] that plaintiff be bound by the arbitration clause just as someone who actually bought, received and retained the same computer is bound.

Id. Moreover, in all three cases, the courts emphasized the plaintiffs' notice of the contractual terms in holding the plaintiffs bound to those terms. *See Burcham, 2009 U.S. Dist. LEXIS 17104, 2009 WL 586513, at *1* (noting Expedia's affidavit showing that plaintiff made his room reservation by creating an account, whereby he would have had to have clicked a button agreeing to the website's terms and conditions after having seen the user agreement written out in full text); *Adsit, 874 N.E.2d at 1023* (holding that plaintiff was bound where "[t]o complete [*72] a transaction, a user must accept the policy, the text of which is immediately visible to the user," and the "user is required to take affirmative action by clicking on the 'I Accept' button"); *Westendorf, 2000 Del. Ch. LEXIS 54, 2000 WL 307369, at *2* ("Importantly, the computer [plaintiff's friend] sent to plaintiff also included Gateway's Standard Terms and Conditions Agreement . . . . [Plaintiff does not] argue that she did not receive the agreement in the shipment paid for by [her friend]."). [18] And none of the cases involved purchasers of a personal good in the secondary market. Therefore, none of the cases supports Virgin Mobile's argument that initial contracts bind secondary purchasers despite a lack of privity. If anything, their emphasis on the plaintiff's notice and acceptance of the contractual terms reinforces the court's determination that the mere possession of a Virgin Mobile-branded handset cannot of itself indicate the existence of a contract between Virgin Mobile and the possessor.

> 18 Virgin Mobile contends that the holding in *Westendorf* does not rely on the plaintiff's receipt of the applicable shrinkwrap terms along with the gifted computer, but rather on the plaintiff's knowing acceptance [*73] of the benefits of the donor's purchase and contract. The court disagrees. The *Westendorf* court made clear that "it [was] not patently clear to [it] that a donee beneficiary necessarily takes the donor's obligations along with his rights." *Westendorf, 2000 Del. Ch. LEXIS 54, 2000 WL 307369, at *4*. If all it took to bind the donee was the acceptance of the benefits of the donor's purchase and contract, then the donee would necessarily take the donor's obligations along with his rights. Although the court's holding in *Westendorf* was not based solely on the plaintiff's receipt of the terms, the court clearly thought plaintiff's receipt was important. *See 2000 Del. Ch. LEXIS 54, [WL] at *2* ("*Importantly*, the computer . . . sent to plaintiff also included Gateway's Standard Terms and Conditions Agreement." (emphasis added)).

Accordingly, assuming *arguendo* that the terms and conditions set out on Virgin Mobile's packaging constitute a valid contract, Virgin Mobile has failed to establish beyond peradventure that a contract exists between Virgin Mobile and any particular MetroFLASH customer (i.e., evidence indicating that the MetroFLASH customer acquired her Virgin Mobile handset in a transaction involving Virgin Mobile's box-top or shrinkwrap [*74] language).

* * *

For the foregoing reasons, MetroPCS' February 3, 2009 motion for partial summary judgment is granted in part and denied in part. Virgin Mobile's February 23, 2009 motion for partial summary judgment is granted in part and denied in part.

SO ORDERED.

/s/ Sidney A. Fitzwater

SIDNEY A. FITZWATER

CHIEF JUDGE

EXHIBIT F

Operator	Smartphones	Avg Subsidized Price	Average MSRP
Boost Mobile	6	$0.00	$189.99
US Cellular	10	$61.00	$434.99
Bluegrass Cellular	18	$71.21	$349.94
T-Mobile	25	$79.59	$359.19
AT&T Mobility	37	$103.02	$469.75
Cellular South	19	$109.47	$437.68
Sprint	31	$112.57	$455.99
Cricket	7	$119.99	$222.85
Verizon Wireless	29	$120.68	$477.20
Metro PCS	8	$136.50	$191.50
GCI Wireless	14	$143.56	$477.13

Frost and Sullivan: Mobile Wireless Communications Group
(Smartphone - Average Pricing Summary by Operator, February 9, 2012)