UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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HYPERLAW, INC.,	:	JURY TRIAL DEMANDED
Intervenor-Plaintiff,	:	
- against -	:	INTERVENOR COMPLAINT
WEST PUBLISHING COMPANY,	:	
Defendant.	:	

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MATTHEW BENDER & COMPANY, INC.,	:	
Plaintiff,	:	
- against -	:	
WEST PUBLISHING COMPANY,	:	CIV. NO. 94-0589
Defendant.	:	

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Intervenor-Plaintiff, HyperLaw, Inc., for its Complaint against West Publishing Company, alleges as follows:

JURISDICTION AND VENUE

1. This Court has subject matter jurisdiction pursuant to 26 U.S.C. §§ 1331 and 1338(a). This action arises under Article I, § 8, cl. 8, of the U.S. Constitution (the "Copyright Clause"), the Copyright Act, 17 U.S.C. § 101 et. seq. (the Copyright Clause and the Copyright Act hereinafter "the Copyright Laws") and the Lanham Act, 15 U.S.C. § 1051 et seq., and seeks relief pursuant to 28 U.S.C. § 2201.

2. Intervenor-Plaintiff HyperLaw, Inc., ("Hyperlaw") is a privately held corporation duly organized and existing under the laws of the State of Delaware, is qualified to do business in the State of New York, and has as its principal and sole place of business the County, City, and State of New York, within this District.

3. Defendant West Publishing Company ("West") is a privately held corporation duly organized and existing under the laws of the State of Minnesota, with its principal place of business in Eagan, County of Dakota, Minnesota. West maintains offices in the County, City, and State of New York, within this District, where it conducts substantial business.

4. Venue is proper in the Southern District of New York pursuant to 28 U.S.C. §§ 1391(b) and 1400(a).

NATURE OF THIS OF ACTION

5. HyperLaw seeks declaratory and related relief as against the defendant West to determine that defendant West does not hold copyrights to citations, page numbering, corrections, parallel citations, names of counsel, and other factual and identifying material contained in two specific West publications, *Supreme Court Reporter®* and *Federal Reporter®*, and that HyperLaw's planned use of that information neither infringes any valid copyright of West, nor constitutes unfair competition.

6. This action concerns acts by defendant West to privatize and misappropriate the text of laws of the United States by asserting copyrights in citations to judicial

opinions, and by asserting claims of copyright over factual material and material created by the federal government. Defendant has attempted to copyright the body of the law itself—perverting the purposes of the Copyright Clause of the Constitution and the Copyright Act by stifling creativity and erecting a barrier between the citizenry and their law.

7. The Copyright Act does not make copyright available for a work of the United States Government. The Constitution authorizes copyrights only to "secure for limited Times to Authors the exclusive Right to their respective Writings." Copyright presupposes originality by the originator, the author of the work. As to the federal case law, the originator(s) are the federal courts.

8. Citation of judicial opinions is the password to accessing the law. In the legal system of the United States, the opinions of the federal courts are the law, ignorance of which may result in civil and criminal liability or penalty.

9. West has erected restrictions and encumbrances upon such access to federal judicial opinions, privatizing the law, and interfering with the due process rights of the citizenry, inconsistent with the Copyright Act and the Constitution of the United States, including the Copyright Clause, the First Amendment, the Sixth Amendment, the Seventh Amendment, and the Fourteenth Amendment; as the law, and citation thereto, is entitled to substantially less protection under the Copyright Clause and the Copyright Act than are names and addresses in telephone books.

10. HyperLaw publishes CD-ROM ("Compact Disc Read-Only-Memory") discs containing computer readable versions of recent

opinions of the United States Supreme Court and the United States Courts of Appeals. HyperLaw desires to incorporate and use information to which defendant West has wrongfully claimed copyright, in HyperLaw's CD-ROMs.

11. HyperLaw has communicated with defendant West to determine whether such uses by HyperLaw would infringe on West's copyrights--and to clarify West's vague, broad assertions regarding copyright. In response, West warned HyperLaw that if HyperLaw included information as to which West made such claims without a license from West, there would be legal consequences and, further, specifically and wrongfully asserted that HyperLaw would thereby be engaged in unfair competition against West.

12. HyperLaw contends that it has an unqualified right to copy information for which protection under the Copyright Laws is not available to West.

BACKGROUND

13. HyperLaw is a publisher of CD-ROMs, and was incorporated in 1991.

14. In January, 1992, HyperLaw began publishing *Supreme Court on Disc*™, an annual CD-ROM containing recent opinions of the United States Supreme Court, the first CD-ROM publication of this nature. (A copy of the latest release of this CD-ROM is attached hereto as Exhibit 2.)

15. In July 1993, HyperLaw began publishing *Federal Appeals on Disc*™, a quarterly CD-ROM of substantially all recent opinions of all of the United States Courts of Appeals,

excepting the Federal Circuit (which is being included in HyperLaw's March, 1994 release).

16. *Federal Appeals on Disc* was the first CD-ROM case reporter of all or substantially all of the opinions of the U.S. Courts of Appeals for a given year. The CD-ROM contains approximately 10,000 opinions from 1993; equivalent to 200,000 pages of typed text. A copy of the latest release of that CD-ROM is attached as Exhibit 1.

17. HyperLaw offers its CD-ROMs for sale to lawyers, and to the general public; including, but not limited to, libraries, students, and public interest groups.

18. HyperLaw obtains the text of substantially all "published" opinions and, for some courts, also unpublished opinions, directly from the federal appellate courts.

19. HyperLaw formats each opinion; prepares an initial section or "header" of bibliographic information; inserts codes and tags ("hyper-links") utilized by a computer program to permit automatic cross-references; organizes the cases by date; and generates a full-text searchable computer file for inclusion on a CD-ROM.

20. Defendant West is a legal publisher. For approximately 100 years, West has been engaged in publishing opinions of federal courts.

21. West's practice has been to create "case reports" from federal appellate judicial opinions by preparing editorial notes and other editorial materials which it integrates with the opinions.

22. West publishes and sells its federal circuit court and United States Supreme Court case reports in various ways, including, but not limited to, two series of volumes referred to as "reporters"—West's *Supreme Court Reporter* and *Federal Reporter*.

23. HyperLaw makes no use of materials from West's *Supreme Court Reporter* or *Federal Reporter* publications, except to prepare a separate table which provides a cross-reference to the initial page and volume citation to the West's *Federal Reporter*. In the course of preparing this table, opinions which were missing or amended are identified by HyperLaw.

24. HyperLaw has sought, and presently seeks to copy information not subject to copyright from the West publications: the text of those opinions not provided to HyperLaw by the courts, corrections, amendments, names of counsel, parallel citations, West citation, and the interior pagination from volumes of West's *Supreme Court Reporter* and the *Federal Reporter*.

25. Defendant West does not hold valid copyrights for the material HyperLaw has sought and presently seeks to copy.

26. The non-copyrighted information from the West publications will be incorporated into the text of opinions as now appear in HyperLaw's present CD-ROMs.

27. In a recent copyright infringement action against a Georgia publisher of CD-ROMs containing judicial opinions, West stated that:

> each West Reporter contains the following editorial enhancements which West contends

> was created entirely by West: (a) West citation for the case; (b) case synopsis, including summary of the facts, the court's holding and the procedural history of the case; (c) numbered headnote(s) summarizing portions of the opinion relating to specific points of law, including the editorial designation of the statutes that relate to each headnote; (d) topic designation for each headnote; (e) topic designations for each headnote with individual "Key Number System" registered trademark symbols (keys) and numeric designations; (f) miscellaneous information prepared by West inserted within the text of the judicial opinion including parallel citations, corrections and cross-reference numbers relating back to corresponding headnote numbers; and a West trademark at the end of each case report. (Emphasis added).

See Exhibit 3, Par. 10, Complaint, *West Publishing v. Gross et al*, No. 1-93-CV-2071 (N.D. Ga., filed September 10, 1993).

28. For the purposes of this action only, the term "West Editorial Additions" shall mean only the following:

> (i) case synopsis, including West's summary of the facts and the court's holding; (ii) numbered headnote(s) summarizing portions of the opinion relating to specific points of law, including the editorial designation of the statutes that relate to each headnote; (iii) topic designation for each headnote; (iv) topic designations for each headnote with individual "Key Number System" registered trademark symbols (keys) and numeric designations; (v) cross-reference numbers relating back to corresponding headnote numbers; and (vi) a West trademark at the end of each case report.

The term "Full Text Case Reports" shall mean the text of opinions of the federal appellate courts, and shall not include these West Editorial Additions.

29. West stated in the copyright infringement action referred to in paragraph 27 above, that "[e]ach volume of West's ... publications includes a copyright notice and contains material wholly original to West including, without limitation, the editorial enhancements to each case report as specified [above], and the <u>selection, coordination and arrangement of cases reported therein, including the numbering of pages of volumes which reflect that arrangement</u>." *See* Exhibit 3, Paragraph 16.

30. Illustrative of West's attempt to broadly assert copyright to non-original, factual, and "sweat of the brow" material is the West advertisement "The difference between raw text and a West Full-Text Plus tm opinion is black and white...", appearing in the National Law Journal, July 27, 1992, Pages 6-7. *See* Exhibit 7.

<u>MISCELLANEOUS INFORMATION</u>

31. Parallel citations and names of counsel ("miscellaneous information" for which West also claims copyright) are merged into the text of the cases in such a way that it is not reasonably possible to distinguish between such additions by West, and the works of the government. These additions are also factual, and do not evidence originality or creativity.

32. Citations and page numbering ("miscellaneous information" for which West claims copyright) are factual or

identifying material not subject to copyright, and, to the extent they may have otherwise been subject to copyright, such claims are based upon compilation not subject to copyright, as described below.

CORRECTIONS

33. West also claims that corrections to opinions in West's *Supreme Court Reporter* and *Federal Reporter* are further "miscellaneous information" for which West claims copyright.

34. Upon information and belief, after the release of an initial federal opinion, corrections (including typographical corrections, substantive amendments, and modifications) may be made to opinions by (or with the approval of) the federal appellate courts.

35. Depending on the Circuit and the nature of the correction to the opinions, and unless the court or clerk of the court issues a formal order or notice, these corrections are not always docketed and filed in the files maintained by the clerk of the court.

36. Employees of the federal judiciary advise West of corrections to slip opinions or advance sheets, or West may advise employees of the judiciary of suggested corrections. Employees of the federal judiciary may approve or disapprove of the changes.

37. Employees of the federal judiciary provide corrections to West and approve or disapprove of corrections made by or provided to West as part of their official duties.

38. Some circuits provide corrections to defendant West on a preferential basis, not similarly available to HyperLaw.

39. The Reporter of the Supreme Court of the United States provides West with "marked-up" copies of slip opinions indicating corrections made in the Preliminary Print, and West then makes those corrections in the *Supreme Court Reporter*.

40. In preparing volumes of the *Federal Reporter* and *Supreme Court Reporter,* West engages in no significant corrections or additions to the texts of the opinions other than those made by or approved by judges, clerks or other employees of the judiciary.

41. In the copyright notice in West's *Supreme Court Reporter* and *Federal Reporter*, West makes the assertion of copyright by claiming copyright on the entire contents with the following "exception":

> Copyright is not claimed as to any part of the original work prepared by a United States Government officer or employee as part of that person's official duties.

42. Corrections to cases, which West defines as "miscellaneous information" and for which West claims copyright, <u>are works of the government</u> for which copyright cannot be claimed.

43. Corrections to cases consists <u>of factual information</u> for which copyright cannot be claimed.

44. Corrections to cases <u>are not original works</u> within the meaning of the Copyright Laws, and thus copyright cannot be claimed.

45. Corrections to federal judicial opinions may not be copyrighted under the Copyright Clause.

SELECTION, ORGANIZATION, AND ARRANGEMENT

46. The *Federal Reporters* contain the opinions designated as "published" by the United States Courts of Appeals for the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, District of Columbia and Federal Circuits.

47. HyperLaw's *Federal Appeals on Disc* CD-ROM contains all or substantially all of the Full Text Case Reports that appear in recent volumes of the *Federal Reporter*.

48. HyperLaw's *Federal Appeals on Disc* CD-ROM also contains certain unpublished opinions not published in full-text form in the *Federal Reporter*.

49. HyperLaw's *Federal Appeals on Disc* CD-ROM, attached as Exhibit 1, contains substantially all of the Full Text Case Reports that appear in Volume 1 of the Third Series of West's *Federal Reporter* (1 F.3d).

50. Not included on HyperLaw's CD-ROM, but reproduced in West's 1 F.3d, are one Full Text Case Report from the Fifth Circuit, two from the Ninth Circuit, six from the Tenth Circuit, and one from the Eleventh Circuit.

51. The selection of what is a "published" United States Court of Appeals opinion is made initially by each of the respective courts.

52. In preparing volumes of the *Federal Reporter*, West engages in no, or substantially no, original "selection."

53. After initial release by a court, an unpublished opinion may later be "published" because it is appealed to the Supreme Court or because of a determination by the respective court.

54. In preparing volumes of the *Federal Reporter*, West engages in no, or substantially no, original "selection."

55. In publishing volumes of the *Federal Reporter*, West initially publishes the opinions in paperbound advance volumes. Within a paperbound volume, West generally, but not always, organizes the opinions by Circuit, and, within each Circuit, by date.

56. Case reports in West's *Federal Reporter* do not appear in a date order within or across volumes, as earlier cases may appear after later cases.

57. When preparing a bound permanent volume of *Federal Reporter*, West combines several paperbound volumes.

58. In the permanent volume of *Federal Reporter*, opinions from a particular Circuit are not found consecutively and appear in several separated locations.

59. Within *Federal Reporter*, opinions are not arranged with the creativity or originality required under the Copyright Laws.

60. Accordingly, there is no "arrangement" or "coordination" of the opinions in the final bound volumes of *Federal Reporter* sufficient to support a claim of copyright.

61. Upon information and belief, in preparing volumes of the *Supreme Court Reporter*, defendant West obtains opinions directly or electronically from the Court or engages in the wholesale scanning or keying-in of all of the Court's slip opinions, Preliminary Print of the United States Reports, and the United States Reports.

62. Opinions in the *Supreme Court Reporter* are ordered substantially as they will appear in the public domain United States Reports: by date, seniority of the Justice announcing the opinion, and as otherwise indicated by employees of the Court to West. In so publishing the *Supreme Court Reporter*, West engages in no "arrangement" or "coordination."

63. West publishes all orders and opinions that the Supreme Court makes public.

64. In publishing *Supreme Court Reporter*, therefore, West engages in no substantial or original "selection" of the cases and orders that appear therein.

65. In publishing *Supreme Court Reporter*, West does not engage in "arrangement" or "coordination" of the cases and orders that appear therein in a manner sufficient to support a claim of copyright.

66. The page number which happens to be placed on the first page of an opinion along with the volume number of West's *Federal Reporter* or *Supreme Court* Reporter in which a given opinion appears (referred to hereinafter as a "Case Citation") are not subject to copyright pursuant to the Copyright Laws.

67. The page numbers placed on the pages subsequent to the first page of each opinion within West's *Federal Reporter* and *Supreme Court Reporter*(referred to hereafter as "pin-point citations") are not subject to a claim of copyright pursuant to the Copyright Laws.

68. West has no interest in the selection, coordination, and arrangement of the cases reprinted in, Case Citation, or citation to the page numbers therein, of the *Federal Reporter*, subject to copyright.

WEST'S USE OF GOVERNMENT PROPERTY

69. For certain Circuits, including the Fifth and Eleventh Circuits, West has entered into contracts with, and is thus paid by the judiciary, to print slip opinions.

70. Upon information and belief, in printing *Federal Reporter*, Defendant West directly uses the electronic typesetting computer files prepared under these slip opinion printing contracts. *See* Exhibits 20, 21 and 22, correspondence of May and June 1993 between Alan D. Sugarman, HyperLaw, Inc. and Dwight D. Opperman, President, West Publishing Co.

71. Except for corrections provided by the Fifth and Eleventh Circuits to West, and not to other publishers, the text of opinions appearing in the *Federal Reporter* for the Fifth and Eleventh Circuit is identical to the text printed by West when it prints the slip opinions. *See,* Exhibits 21, 22 and 23.

72. Upon information and belief, those slip opinion printing contracts between West and the Administrative Office

of the United States contain a provision substantially as follows:

> All furnished workproduct, materials, and all other items made or furnished by the Contractor as required, and paid for by the Government, shall remain or become the property of the United States, and shall not be submitted, loaned, leased, displayed or sold to any other party by the Contractor. (Emphasis added.)

See Exhibit 23, letter dated March 17, 1993 from the Administrative Office of United States Court to Alan D. Sugarman, HyperLaw, Inc.

73. Upon information and belief, West purchases from other slip opinion printers their databases created pursuant to similar agreements with the Administrative Office of the United States Courts, and uses those databases to create the *Federal Reporter*.

74. West has no valid copyright claim to these works of the United States Government.

CORRESPONDENCE BETWEEN WEST AND HYPERLAW

75. Since July 1, 1991, HyperLaw has repeatedly attempted to obtain, from West, a description and clarification of what is claimed (or not claimed) under these asserted West copyrights. *See* Exhibits 8 through 21.

76. HyperLaw sought, among other things, clarification of the extent West copyright claims with regard to HyperLaw's intended publications, including, among other things, use of

Case Citations, Pin-Point Citations, corrections, names of counsel, and parallel citations.

77. In response to requests by HyperLaw, West has repeatedly refused to clarify or otherwise specify the extent of its copyright claims, insisted, instead, that HyperLaw obtain a license from West, and on August 1, 1991 warned HyperLaw that "[i]f you proceed in any other way, you do so at your own risk." *See* Exhibit 9 attached hereto.

78. On August 21, 1991 West reiterated its August 1, 1991 warning: "Finally, I believe that the last sentence of my previous letter was -- and remains -- clear." *See* Exhibit 11.

79. In May of 1992, HyperLaw continued to request clarification from West, and requested that West permit HyperLaw to include only the Case Citation, that first page and volume citation, to the *Supreme Court Reporter* in HyperLaw's *Supreme Court on Disc* CD-ROM.

80. In a letter to West dated May 21, 1992 (Exhibit 14) HyperLaw sought to clarify the copyright claims from West's present President's sworn testimony to the Subcommittee on Intellectual Property and Judicial Administration of the House Committee on the Judiciary on May 14, 1992 that "[n]either does West claim that its citations—such as '681 F.Supp. 1228'—are *in and of themselves copyrightable*." West responded only that "'in and of itself' has its normal English meaning." *See* Exhibit 15, Letter from West to HyperLaw dated May 28, 1992. *But see* Exhibit 24, Statement of Ralph Oman, Register of Copyrights.

81. HyperLaw learned of a prior copyright infringement action brought by West against a publisher of case law CD-ROMs in Nebraska. *West Publishing v. ROM Publishers, Inc.*, No. 4-88-803 (D.Minn. filed September 16, 1988) Upon information and belief, as a result of that action, that publisher is now defunct.

82. Immediately after commencing the referenced action in the Northern District of Georgia, West issued a press release announcing the action and warning others of West's plans to utilize litigation to assert such copyrights. This warning resulted in an apprehension that any activity such as was described in that complaint would result in similar legal action by West. (*See* Exhibit 4, West Publishing Company, Press Release dated September 10, 1993.) Press inquiries were directed by the Press Release to attorney Joseph Musilek, of Opperman, Heins & Paquin.

83. Upon information and belief, Joseph Musilek of Opperman, Heins & Paquin then spoke, on the record, with a reporter for the National Law Journal, which resulted in an article entitled "West Moves to Protect Opinions" in the December 27, 1993, edition of the National Law Journal. The article announced other West litigation which created additional, similar apprehension. *See* Exhibit 5.

84. HyperLaw's *Federal Appeals on Disc and Supreme Court on Disc* are published without the pagination, citation, correction, and other non-original factual materials contained in the West Reporters.

85. West's copyright claims and warnings to HyperLaw, its, public warnings, public statements, willingness to engage

in litigation, and ability to engage in such litigation have created an apprehension by HyperLaw that it will be sued by West for publishing public, non-copyrightable information from West's *Federal Reporter* and *Supreme Court Reporter, which* is thus impairing HyperLaw's ability to publish public, non-copyrightable information from West's *Federal Reporter* and *Supreme Court Reporter*.

FIRST CAUSE OF ACTION FOR DECLARATORY JUDGMENT

86. HyperLaw repeats and realleges the allegations of paragraphs 1 through 85 above, and incorporates herein those paragraphs, and other paragraphs hereafter, by reference.

87. Factual material such as names of counsel, parallel citations, corrections, and amendments (other than the West Editorial Additions set forth in paragraph 28 above) made by West in West's *Supreme Court Reporter* and *Federal Reporter* are not original material and are not otherwise subject to copyright protection pursuant to the Copyright Laws.

SECOND CAUSE OF ACTION FOR DECLARATORY JUDGMENT

88. HyperLaw repeats and realleges the allegations of paragraphs 1 through 87 above, and incorporates herein those paragraphs, and other paragraphs hereafter, by reference.

89. Factual material such as names of counsel, parallel citations, corrections, and amendments (other than the West Editorial Additions set forth in paragraph 28 above) made by West in Volume 111 of West's *Supreme Court Reporter* and Volume 1 of the Third Series of West's *Federal Reporter* are

not original material and are not subject to copyright protection pursuant to the Copyright Laws.

<u>THIRD CAUSE OF ACTION FOR DECLARATORY JUDGMENT</u>

90. HyperLaw repeats and realleges the allegations of paragraphs 1 through 89 above, and incorporates herein those paragraphs, and other paragraphs hereafter, by reference.

91. Corrections, and amendments made by West in West's *Supreme Court Reporter* and *Federal Reporter* (other than the West Editorial Additions set forth in paragraph 28 above) are not original material, because they are factual material, and are also works of the government of the United States, and thus are not subject to copyright protection pursuant to the Copyright Laws.

<u>FOURTH CAUSE OF ACTION FOR DECLARATORY JUDGMENT</u>

92. HyperLaw repeats and realleges the allegations of paragraphs 1 through 91 above, and incorporates herein those paragraphs, and other paragraphs hereafter, by reference.

93. Corrections made by West in Volume 111 West's *Supreme Court Reporter* and Volume 1 of the Third Series of West's *Federal Reporter* (other than the West Editorial Additions set forth in paragraph 28 above) are not original material and are also works of the government of the United States, and are not subject to copyright protection pursuant to the Copyright Laws.

FIFTH CAUSE OF ACTION FOR DECLARATORY JUDGMENT

94. HyperLaw repeats and realleges the allegations of paragraphs 1 through 93 above, and incorporates herein those paragraphs, and other paragraphs hereafter, by reference.

95. Even if factual material such as the names of counsel, parallel citations, corrections, and amendments made by West in West's *Supreme Court Reporter* and *Federal Reporter* (other than the West Editorial Additions set forth in paragraph 28 above) were susceptible to copyright, that material is indistinguishably merged with material not subject to copyright protection to such an extent that the material is not subject to copyright protection pursuant to the Copyright Laws.

SIXTH CAUSE OF ACTION FOR DECLARATORY JUDGMENT

96. HyperLaw repeats and realleges the allegations of paragraphs 1 through 95 above, and incorporates herein those paragraphs, and other paragraphs hereafter, by reference.

97. Even if factual material such as the names of counsel, parallel citations, corrections, and amendments made by defendant West and contained in Volume 111 of West's *Supreme Court Reporter* and Volume 1 of the Third Series of West's *Federal Reporter* (other than the West Editorial Additions set forth in paragraph 28 above) were subject to copyright protection, that material is indistinguishably merged with material not subject to copyright protection to such an extent that the such material is not subject to copyright protection pursuant to the Copyright Act.

SEVENTH CAUSE OF ACTION FOR DECLARATORY JUDGMENT

112. HyperLaw repeats and realleges the allegations of paragraphs 1 through 97 above, and incorporates herein those paragraphs, and other paragraphs hereafter, by reference.

113. The Case Citation (to the initial page and volume number) of the full text of opinions in West's *Supreme Court Reporter* and *Federal Reporter* is not subject to copyright protection by reason of insufficient collection, arrangement, and coordination of the full text of the opinions, and HyperLaw may use those Case in publishing comprehensive competing publications without infringing any valid West copyright.

EIGHTH CAUSE OF ACTION FOR DECLARATORY JUDGMENT

114. HyperLaw repeats and realleges the allegations of paragraphs 1 through 99 above, and incorporates herein those paragraphs, and other paragraphs hereafter, by reference.

115. The citation and pagination to each individual page within the full text opinions in West's *Supreme Court Reporter* and *Federal Reporter* ("Pin-Point Citation") are not subject to copyright protection by reason of insufficient collection, arrangement, and coordination of the full text of the opinions, and HyperLaw may use such Pin-Point Citation in publishing comprehensive competing publications without infringing any valid West copyright.

NINTH CAUSE OF ACTION FOR DECLARATORY JUDGMENT

116. HyperLaw repeats and realleges the allegations of paragraphs 1 through 101 above, and incorporates herein those paragraphs, and other paragraphs hereafter, by reference.

117. The citation and pagination of the full text opinions and orders in Volume 111 of *West's Supreme Court Reporter* and volume 1 of the Third Series of *Federal Reporter* are not subject to copyright protection by reason of insufficient collection, arrangement, and coordination of the full text of the opinions, and Intervenor-Plaintiff may use such citations and pagination in publishing comprehensive competing publications without infringing any valid West copyright.

TENTH CAUSE OF ACTION FOR DECLARATORY JUDGMENT

118. HyperLaw repeats and realleges the allegations of paragraphs 1 through 103 above, and incorporates herein those paragraphs, and other paragraphs hereafter, by reference.

119. Publication by HyperLaw of a CD-ROM containing all or substantially all of the opinions contained in a volume or volumes of the *Federal Reporter*, and including citations, page numbers, corrections, the names of counsel, and parallel citations taken from the *Federal Reporter* does not and would not constitute unfair competition under the Lanham Act.

120. Publication by HyperLaw of a CD-ROM containing all or substantially all of the opinions also contained in a volume or volumes of the *Supreme Court Reporter*, and including the page numbers, corrections, names of counsel, and parallel citations taken from the *Supreme Court Reporter*, does not constitute unfair competition under the Lanham Act.

ELEVENTH CAUSE OF ACTION FOR DECLARATORY JUDGMENT

107. HyperLaw repeats and realleges the allegations of paragraphs 1 through 106 above, and incorporates herein those paragraphs, and other paragraphs hereafter, by reference.

108. For a period of up to three years after the initial release of an opinion by the Supreme Court, there is not a standard or official federal judicial citation acceptable for use in court documents and legal publications with the exception of private citations of the *Supreme Court Reporter, United States Reports, Lawyers Edition®,* and *U.S. Law Week®*. Use of one or more of these private citations are required by federal courts, and the preferred use is the citation to *Supreme Court Reporter*.

109. The *Federal Reporter* is the only source which contains corrected versions of the slip opinions issued by the federal Courts of Appeal. The Case Citation and internal Pin-Point Citation in both the *Federal Reporter* and the *Supreme Court Reporter* have practical (and in many instances judicial) recognition as the "official" citation.

110. This recognition has been made possible as a result both by the actions of the federal judiciary, specifically the assistance provided by the federal judiciary to West, and the federal judiciary willingness to accept and adopt the West citation, with the active encouragement and support of West.

111. Thus, if the West copyrights were otherwise valid in any part, then HyperLaw's intended use is a fair use and by that reason, a valid defense to infringement.

WHEREFORE, Intervenor-Plaintiff HyperLaw prays that this Honorable Court enter a judgment declaring the rights and other legal relations of the parties as follows:

1. That West does not possess a federal statutory copyright in the Case Citation or the Pin-Point Citation to the *Supreme Court Reporter* and the *Federal Reporter;*

2. That West does not possess a federal statutory copyright of corrections, names of counsel, and parallel citations included in the *Supreme Court Reporter* and the *Federal Reporter;*

3. That HyperLaw will not infringe any valid West copyright by its intended use of Case Citations, Pin-Point Citations, page numbering, corrections, counsel names, and parallel cites taken from the *Supreme Court Reporter* and the *Federal Reporter;*

4. That HyperLaw's intended use of the Case Citations, Pin-Point Citations, page numbering, corrections, counsel names, and parallel cites taken from the *Supreme Court Reporter* and the *Federal Reporter* are protected under the Constitution of the United States, including the Copyright Clause, the First Amendment, the Sixth Amendment, the Seventh Amendment, and the Fourteenth Amendment;

5. That HyperLaw will not be engaged in unfair competition as against the defendant in using Case Citations, Pin-Point Citations, page numbering, corrections, counsel names, and parallel cites taken from the *Supreme Court*

Reporter and the *Federal Reporter* in HyperLaw's publication of *Supreme Court on Disc* and *Federal Appeals on Disc*;

6. For the recovery of full costs and reasonable attorney's fees pursuant to 17 U.S.C. 505; and

7. For such additional and further relief, in law and equity, as may be deemed just and appropriate.

Dated: New York, New York
March 9, 1994

Respectfully Submitted,

LAW OFFICES OF
PAUL J. RUSKIN

By: ______________________
Paul J. Ruskin, Esq.
(PR-1288)
Attorney for Hyperlaw, Inc.
Intervenor-Plaintiff

72-08 243rd Street
Douglaston, New York 11363
Telephone: (718) 631-8834
Facsimile: (718) 631-5572

Of Counsel:
Carl J. Hartmann III, Esq.

VERIFICATION

COUNTY OF NEW YORK)
: ss.:
STATE OF NEW YORK)

I, **ALAN D. SUGARMAN**, being the President and Chief Executive Officer of the Intervenor-Plaintiff, HyperLaw, Inc., and pursuant to the requisite resolutions and authorizations, do state that HyperLaw, Inc., through me as its duly authorized officer, does hereby verify, under oath, that the facts and assertions made herein are true and accurate to the best of its knowledge.

ALAN D. SUGARMAN
President and CEO, HyperLaw, Inc.

Subscribed and sworn to before me
this 9th day of March, 1994

NOTARY PUBLIC

EDWARD S. POMERANTZ
Notary Public-State of New York
No. 44-8405123
Qualified in Rockland County
Commission Expires August 31, 1994

Form SDNY-9

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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MATTHEW BENDER & COMPANY, INC.,	:
Plaintiff,	: 94 CIV 0589 (LAP)
- against -	:
WEST PUBLISHING COMPANY,	: RULE 9 CERTIFICATION
Defendant.	:

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Pursuant to Rule 9 of the General Rules of the Southern District of New York and to enable the judges of the court to evaluate possible disqualification or recusal, the undersigned counsel of record for a private (non-governmental) party certifies that the following are corporate parents, subsidiaries, or affiliates of HyperLaw, Inc., which are publicly held.

NONE.

Dated: New York, New York
March 9, 1994

By: ______________________
Paul J. Ruskin, Esq.
(PR-1288)
Attorney for Hyperlaw, Inc.
Intervenor-Plaintiff

72-08 243rd Street
Douglaston, New York 11363
Telephone: (718) 631-8834
Facsimile: (718) 631-5572

EXHIBITS TO THE COMPLAINT

Exhibit 1:
Federal Appeals on Disc™ CD-ROM, December, 1993 Release, HyperLaw, Inc.

Exhibit 2:
Supreme Court on Disc™ CD-ROM, November, 1992 Release, HyperLaw, Inc.

Exhibit 3:
Complaint in *West Publishing v. Gross* et al, No. 1-93-CV-2071 (United States District Court, N.D. Ga., filed September 10, 1993)

Exhibit 4:
West Publishing Company, Press Release dated September 10, 1993

Exhibit 5
"West Moves to Protect Opinions", New York Law Journal, December 27, 1993.

Exhibit 6:
Complaint in *Matthew Bender v. West Publishing Company*, No. Civ. 94-0589 (United States District Court, S.D.N.Y., January 31, 1994)

Exhibit 7:
West Publishing Company, Advertisement, "The difference between raw text and a West Full-Text Plus tm opinion is black and white...", National Law Journal, July 27, 1992, Pages 6-7.

Exhibit 8:
Letter Dated July 1, 1991, Alan D. Sugarman, HyperLaw, Inc. to Timothy Blank, Esq., West Publishing Co.

Exhibit 9:
Letter Dated August 1, 1991, James E. Schatz, Opperman Heins Paquin to Alan D. Sugarman, HyperLaw, Inc.

Exhibit 10:
Letter Dated August 12, 1991, Alan D. Sugarman, HyperLaw, Inc. to James E. Schatz, Opperman Heins Paquin.

Exhibit 11 :
Letter Dated August 21, 1991, James E. Schatz, Opperman Heins Paquin to Alan D. Sugarman, HyperLaw, Inc.

Exhibit 12:
Letter Dated September 19, 1991, Alan D. Sugarman, HyperLaw, Inc. to James E. Schatz, Opperman Heins Paquin.

Exhibit 13:
Letter Dated October 9, 1991, James E. Schatz, Opperman Heins Paquin to Alan D. Sugarman, HyperLaw, Inc.

Exhibit 14:
Letter Dated May 21, 1992, Alan D. Sugarman, HyperLaw, Inc. to James E. Schatz, Opperman Heins Paquin.

Exhibit 15:
Letter Dated May 28, 1992, James E. Schatz, Opperman Heins Paquin to Alan D. Sugarman, HyperLaw, Inc.

Exhibit 16:
Letter Dated May 29, 1992, Alan D. Sugarman, HyperLaw, Inc. to James E. Schatz, Opperman Heins Paquin.

Exhibit 17:
Letter Dated June 2, 1992, James E. Schatz, Opperman Heins Paquin to Alan D. Sugarman, HyperLaw, Inc.

Exhibit 18:
Letter Dated June 11, 1992, Alan D. Sugarman, HyperLaw, Inc. to James E. Schatz, Opperman Heins Paquin.

Exhibit 19:
Letter Dated June 18, 1992, James E. Schatz, Opperman Heins Paquin to Alan D. Sugarman, HyperLaw, Inc.

Exhibit 20:
Letter Dated May 23, 1993, Alan D. Sugarman, HyperLaw, Inc. to Dwight D. Opperman, President, West Publishing Co.

Exhibit 21:
Letter Dated June 14, 1993, Dwight D. Opperman, President, West Publishing Co. to Alan D. Sugarman, HyperLaw, Inc.

Exhibit 22:
Letter Dated June 21, 1993, Alan D. Sugarman, HyperLaw, Inc. to Dwight D. Opperman, President, West Publishing Co.

Exhibit 23:
Letter dated March 17, 1993, from the Administrative Office of United States Court to Alan D. Sugarman, HyperLaw, Inc.

Exhibit 24:
Exclusions of Copyright Protection for Certain Legal Compilations: Hearings on H.R. 4426 Before the Subcomm. on Intellectual Property and Judicial Administration, House Comm. on the Judiciary, 102nd Congress, 2nd Session, (7-32) (1992). Statement of Ralph Oman, Register of Copyrights.

Exhibit 1

Federal Appeals on Disc™
CD-ROM, December, 1993
Release, HyperLaw, Inc.

HyperLaw™

MS-DOS
CD-ROM
HYPERTEXT
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DECEMBER
1993
4th Quarter
January-December 1993
plus BONUS 1992
UNITED STATES CODE ON DISC™

FEDERAL APPEALS ON DISC™

CD-ROM Advance Sheets™
Decisions of the United States
Courts of Appeals

HyperLaw, Inc. P.O. Box 1176, Ansonia Station, New York, NY 10023-1176 (800) 825-6521

Exhibit 2

Supreme Court on Disc™
CD-ROM, November, 1992
Release, HyperLaw, Inc.


HyperLaw™
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Opinions of the
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Exhibit 3

Complaint in *West Publishing v. Gross* et al, No. 1-93-CV-2071 (United States District Court, N.D. Ga., filed September 10, 1993)

ORIGINAL

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

FILED IN CLERK'S OFFICE
U.S.D.C. Atlanta

SEP 10 1993

LUTHER D. THOMAS, Clerk
By: Deputy Clerk

WEST PUBLISHING COMPANY, a Minnesota corporation, Plaintiff, v. MITCHELL GROSS and LEXSCAN DATA CORP., a/k/a OMNISEARCH DATA CORPORATION, a/k/a ON POINT SOLUTIONS, and ON POINT SOLUTIONS, INC. Defendants.	)	CIVIL ACTION FILE NO. 1 93 CV 2071 -MHS

COMPLAINT

Plaintiff West Publishing Company ("West"), for its Complaint against Defendants Mitchell Gross ("Gross"), Lexscan Data Corp., also known as OmniSearch Data Corporation and On Point Solutions and On Point Solutions, Inc. (collectively "On Point Defendants"), alleges as follows:

I. NATURE OF THE ACTION

1.

This Complaint seeks damages and an injunction preventing Defendants from the reproduction and sale of On Point Solutions' Florida CD-Rom, a computerized database of Florida appellate court case reports that Defendants misappropriated from plaintiff West's copyrighted compilation of annotated case reports, Southern Reporter®. Defendants' conduct infringes West's federally registered copyrights, and violates the

1

Georgia common law of misappropriation and unfair competition.

2.

Defendants' unauthorized copying of West's copyrighted books is part of an unlawful conspiracy between Defendants to compete unfairly against West and to engage in fraudulent practices directed against West and consumers within the State of Georgia and the State of Florida. Pursuant to their conspiracy, the On Point Defendants tore the covers and spines off of West's books, ran the pages of the books through a computer scanner and thereby copied the books, including all of the copyrighted elements of the books, and created an infringing CD-Rom database which they then marketed and sold to third parties in violation of federal and state laws.

3.

This action arises under the Copyright Act, 17 U.S.C. §§ 101 et seq.; the Lanham Act, 15 U.S.C. §§ 1051 et seq.; and the common law of Georgia and Florida.

II. JURISDICTION AND VENUE

4.

Jurisdiction of this action is proper under 28 U.S.C. § 1331, in that the action arises under the Copyright Act, 17 U.S.C. §§ 101 et seq., and the Lanham Act, 15 U.S.C. §§ 1051 et seq.; under 28 U.S.C. § 1338(b), in that the Complaint asserts a claim of unfair competition joined with a substantial and related claim under the copyright and trademark laws; and under 28 U.S.C. § 1332(a)(1), in that this action is between citizens of different states and the matter in controversy exceeds the sum or value of $50,000, exclusive of interest and costs.

5.

Venue of this action is proper in this District under 28 U.S.C. § 1391(b), in that this is the judicial district in which a substantial part of the events or omissions giving rise to the claim occurred.

III. PARTIES TO THIS ACTION

6.

Plaintiff West is a corporation duly organized and existing under the laws of the State of Minnesota. Its principal place of business is located in the County of Dakota, State of Minnesota.

7.

Defendant Lexscan Data Corp., also known as OmniSearch Data Corporation and On Point Solutions has a principal place of business in the county of Cobb, State of Georgia, and was incorporated in the State of Georgia. Defendant On Point Solutions, Inc. is a corporation duly organized and existing under the laws of the State of New Jersey, believed to have its principal business location in Cobb County, Georgia.

8.

Defendant Gross is an individual residing in the County of Cobb, State of Georgia. West alleges that defendant Gross owns and operates On Point Solutions, Inc. and that all of the Defendants have acted as agents for the other Defendants in doing the things alleged herein.

IV. FACTUAL BACKGROUND

9.

West is now and has been for over 100 years engaged in the business, among others, of collecting and publishing judicial opinions of state and federal courts. At all times relevant, West's practice has been to create "case reports" from these judicial opinions by preparing editorial notes and other editorial materials which it integrates with the opinions. West publishes and sells its case reports in several series of case reporters collectively known as National Reporter System® (NRS) publications.

10.

Included among the NRS publications is Southern Reporter®, which contains case reports of, among other courts, the Florida appellate courts. The Florida case reports in Southern Reporter® also are compiled and subsequently published in Florida Cases®, a West publication promoted and sold separately from Southern Reporter®. Each Southern Reporter® case report contains the following editorial enhancements created entirely by West: (a) West citation of the case; (b) case synopsis, including summary of the facts, the court's holding and the procedural history of the case; (c) numbered headnote(s) summarizing portions of the opinion relating to specific points of law, including the editorial designation of the statutes that relate to each headnote; (d) topic designations for each headnote; (e) topic designations for each headnote with individual "Key Number System" registered trademark symbols (keys) and numeric designations (key numbers) to which headnotes are referenced; (f) miscellaneous information prepared by West inserted within the text of the judicial opinion including parallel citations, corrections and cross-reference numbers relating back to corresponding headnote numbers; and (g) at the conclusion of each West case report, a West trademark, the symbol of a key enclosing the words "West Key Number System."

11.

West alleges that the On Point Defendants used a computer scanner to copy in their entirety the Florida appellate court case reports from West's Southern Reporter®, as reprinted in West's Florida Cases®.

12.

West alleges that the On Point Defendants, after scanning the West case reports, created a computerized database, which the On Point Defendants then used to create a CD-Rom product called "On Point Solutions Florida CD-Rom" (the "On Point Disc"). The On Point Disc is the result of Defendants' wholesale misappropriation of West's authorship, time, and investment in developing the copied case reports.

13.

West alleges that the On Point Defendants have engaged in the following (among other) deceptive and fraudulent schemes in connection with the marketing and sale of the On Point Disc in competition with West:

(a) Defendants have falsely represented to customers, potential customers and others that they independently developed and own the computerized database contained on the On Point Disc, and that Defendants are authorized to provide updated copies of the On Point Disc.

(b) Defendants have misrepresented to customers and others the ownership, backing and financing of On Point, including by falsely representing that Sony Corporation is an owner and backer of On Point.

(c) Defendant On Point sought to obtain a subscription to Florida Cases®, which contains West's Florida appellate court case reports, by fraudulently misrepresenting to the West sales representative that On Point Solutions was a document research service. West believes that On Point intended to use its Florida Cases® subscription to obtain West's Florida appellate court case reports in order to update the On Point Disc.

FIRST CAUSE OF ACTION AGAINST THE ON POINT DEFENDANTS FOR COPYRIGHT INFRINGEMENT

14.

West hereby incorporates by reference and realleges the allegations contained in paragraphs 1 through 13 of this Complaint.

15.

The West books copied by the On Point Defendants constitute copyrightable subject matter under the Copyright Act. West owns exclusive rights and privileges in and to the copyrights in the case reports copied by the On Point Defendants. The Registrar of Copyrights has issued Certificates of Registration for the books.

therein and commercially distributing them as the On Point Disc. All versions of the On Point Disc product sold or distributed by Defendants, as well as all copies of West's case reports made by Defendants during the course of creating the On Point Disc product, constitute infringing copies and unauthorized derivative works of the copyrighted West books and case reports.

21.

West is entitled to recover statutory damages against the On Point Defendants in the amount of $100,000 for each act of infringement, pursuant to 17 U.S.C. § 504(c).

22.

As a consequence of the actions of Defendants, West has suffered and, unless Defendants' ongoing actions are enjoined, will continue to suffer irreparable injury for which there is no adequate legal remedy.

23.

The conduct of the On Point Defendants constitutes a willful infringement of the exclusive rights of West under the Copyright Act. As a consequence, West is entitled to an award of its attorneys' fees incurred in this action, pursuant to 17 U.S.C. § 505.

SECOND CAUSE OF ACTION AGAINST THE ON POINT DEFENDANTS FOR VIOLATIONS OF THE LANHAM ACT

24.

West hereby incorporates by reference and realleges the allegations contained in paragraphs 1 through 23 of this Complaint.

16.

Each volume of West's NRS publications includes a copyright notice and contains material wholly original to West including, without limitation, the editorial enhancements to each case report as specified in paragraph 10, and the selection, coordination and arrangement of cases reported therein, including the numbering and paging of volumes which reflect that arrangement.

17.

West has complied in all respects with the laws governing copyright and has secured the exclusive rights and privileges in and to the copyright in each bound volume and advance sheet of its NRS publications, first published on or after January 2, 1918.

18.

West has registered its copyright claims as to such volumes and advance sheets with the Register of Copyrights and has obtained separate Certificates of Registration for each such volume from the Register of Copyrights within five years from the date of first publication.

19.

West currently obtains Certificates of Registration for each volume of its NRS publications within three months after the first publication of each volume.

20.

The On Point Defendants have continually infringed West's copyrights in the books by copying the case reports contained

25.

Pursuant to their unlawful conspiracy, the On Point Defendants have misrepresented the source and ownership of the On Point Disc to customers and potential customers of On Point and to other third parties to this action. These misrepresentations are likely to confuse actual and potential customers of West and On Point as to the true ownership and right to market the On Point Disc and products incorporating West's copyrighted case reports, and will adversely affect sales of West's products moving in interstate commerce.

26.

The On Point Defendants' conduct constitutes a violation of Sections 43 and 44 of the Lanham Act, 15 U.S.C. §§ 1125-1126.

27.

As a result of the foregoing, Defendants have proximately caused damages to West in an amount to be proven at trial. As a consequence of the actions of Defendants, West has suffered and, unless Defendants' ongoing actions are enjoined, will continue to suffer irreparable injury for which there is no adequate legal remedy.

28.

The On Point Defendants are guilty of oppression, fraud and malice in doing the things alleged herein, by reason of which West is entitled to punitive damages for the sake of example and by way of punishing Defendants.

THIRD CAUSE OF ACTION AGAINST THE ON POINT DEFENDANTS FOR VIOLATIONS OF THE GEORGIA COMPUTER SYSTEMS PROTECTION ACT

29.

West hereby incorporates by reference and realleges the allegations contained in paragraphs 1 through 28 of this Complaint.

30.

Section 16-9-93(a) of the Georgia Computer Systems Protection Act (the "Act") provides as follows:

> Computer Theft. Any person who uses a computer or computer network with knowledge that such use is without authority and with the intention of:
>
> (1) Taking or appropriating any property of another, whether or not with the intention of depriving the owner of possession;
>
> (2) Obtaining property by any deceitful means or artful practice; or
>
> (3) Converting property to such person's use in violation of an agreement or other known legal obligation to make a specified application or disposition of such property
>
> shall be guilty of the crime of computer theft.

31.

By reason of the foregoing, the On Point Defendants have unlawfully taken or appropriated property belonging to West by deceitful means or artful practices in violation of the known legal obligations of these Defendants.

32.

Section 16-9-93(g) of the Act provides for civil remedies for its violation.

33.

As a result of the foregoing, the On Point Defendants have proximately caused damages to West in an amount to be proven at trial. As a consequence of the actions of Defendants, West has suffered and, unless Defendants' ongoing actions are enjoined, will continue to suffer irreparable injury for which there is no adequate legal remedy.

34.

The On Point Defendants are guilty of oppression, fraud and malice in doing the things alleged herein, by reason of which West is entitled to punitive damages for the sake of example and by way of punishing Defendants.

FOURTH CAUSE OF ACTION AGAINST THE
ON POINT DEFENDANTS FOR UNFAIR COMPETITION

35.

West hereby incorporates by reference and realleges the allegations contained in paragraphs 1 through 34 of this Complaint.

36.

Pursuant to their unlawful conspiracy, the On Point Defendants have engaged in unfair competition under state law against West including, among other acts alleged above, the following:

(i) Defendants copied West's books onto a computerized storage device and then onto the On Point Disc;

(ii) Defendants have sold the On Point Disc in competition with West; and

(iii) Defendants have used deceptive and fraudulent practices in marketing the On Point Disc, including falsely representing that On Point has the right to and will update the database, using aliases to deceive existing and potential customers, and misrepresenting the ownership, backing and finances of On Point.

37.

As a result of the foregoing, the On Point Defendants have proximately caused damages to West in an amount to be proven at trial. As a consequence of the actions of Defendants, West has suffered and, unless Defendants' ongoing actions are enjoined, will continue to suffer irreparable injury for which there is no adequate legal remedy.

38.

The On Point Defendants are guilty of oppression, fraud and malice in doing the things alleged herein, by reason of which West is entitled to punitive damages for the sake of example and by way of punishing Defendants.

FIFTH CAUSE OF ACTION AGAINST THE ON POINT DEFENDANTS FOR MISAPPROPRIATION

39.

West hereby incorporates by reference and realleges the allegations contained in paragraphs 1 through 38 of this Complaint.

40.

West has expended substantial time, skill, labor and money in collecting and organizing case reports and in designing and publishing its NRS publications, including Southern Reporter®.

41.

West and the Defendants are in direct competition in the sale of their respective products.

42.

Defendants' use and intended use of West's case reports from its NRS publications will diminish the value of West's NRS publications and divert trade from West to Defendants.

43.

Defendants' use and intended use of West's case reports without West's consent constitutes misappropriation under state law.

44.

As a result of the foregoing, the On Point Defendants have proximately caused damages to West in an amount to be proven at trial. As a consequence of the actions of Defendants, West has suffered and, unless Defendants' ongoing actions are enjoined, will continue to suffer irreparable injury for which there is no adequate legal remedy.

45.

The On Point Defendants are guilty of oppression, fraud and malice in doing the things alleged herein, by reason of which West is entitled to punitive damages for the sake of example and by way of punishing Defendants.

WHEREFORE, West prays for judgment as follows:

1. As against all Defendants, their subsidiaries, affiliates, agents, servants, employees and all other persons in active concert or participation with them:

(a) Enjoining them from infringing the copyright in the West books;

(b) Enjoining them from copying, selling, marketing or distributing the On Point Disc or any adaptation, version or modification thereof, or derivative work based thereon; and

(c) Enjoining them from continuing the unfair competition alleged herein.

2. As against the On Point Defendants, ordering the impoundment and destruction of any and all copies of the computerized database copied from the West books, or derivative work(s) based thereon.

3. As against the On Point Defendants, jointly and severally, for statutory copyright damages in the amount of $100,000 for each infringement, pursuant to 17 U.S.C. § 504(c).

4. As against the On Point Defendants, jointly and severally, awarding to West punitive damages.

5. As against all Defendants, jointly and severally, awarding to West its costs of this action.

6. As against the On Point Defendants, jointly and severally, awarding to West its reasonable attorneys' fees pursuant to 17 U.S.C. § 505.

7. As against all Defendants, granting to West such other and further relief as may be just and proper.

This 10th day of September, 1993.

Respectfully submitted,

Charles C. Murphy
Georgia Bar No. 530062

Ellen G. Schlossberg
Georgia Bar No. 629387

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100 Washington Avenue South
Minneapolis, MN 55401
(612) 339-6900

ATTORNEYS FOR PLAINTIFF
WEST PUBLISHING COMPANY

775EGS

Exhibit 4

West Publishing Company,
Press Release dated
September 10, 1993

Posted with the permission of West's attorneys.

FOR IMMEDIATE RELEASE September 10, 1993

Press Inquiries:

Dorothy Molstad, West Publishing Company (612) 687-7617
Joe Musilek, Opperman Heins & Paquin (612) 339 6900
Charles Murphy, Vaughan & Murphy (404) 395 6550

WEST PUBLISHING COMPANY SUES ATLANTA-BASED LEGAL PUBLISHER
MITCHELL GROSS FOR COPYRIGHT INFRINGEMENT AND
UNFAIR COMPETITION OVER FLORIDA CD-ROM

West Publishing Company, Eagan, Minnesota, filed suit today in U.S. District Court in Atlanta against Mitchell Gross and his legal publishing company, On Point Solutions, Inc. The suit alleges that On Point created and is selling a CD-ROM of Florida appellate court

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On Point created and is selling a CD-ROM of Florida appellate court decisions misappropriated from West's copyrighted compilation of annotated judicial case reports, _Southern Reporter_ (TM). The suit alleges that On Point Solutions' CD-ROM infringes West's copyrights and constitutes unfair competition in violation of Georgia law.

"West has published reports of the opinions of state and federal courts for more than 115 years, and always has registered its copyrights and trademarks in those publications, including _Southern Reporter_," said Vance K. Opperman, West's president. "West expends substantial editorial effort in adding to the opinions a variety of editorial features created by West's lawyer-editors," Opperman added.

The lawsuit seeks a permanent injunction requiring On Point to stop selling its Florida CD-ROM. The lawsuit also seeks an award of damages resulting from the copying and payment by On Point and Gross of West's attorneys' fees in pursuing the lawsuit.

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Gross and the corporate predecessor to On Point, OmniSearch Data Corporation, were sued earlier this year by Mead Data Central, publisher of a CD-ROM containing Georgia judicial decisions. Mead asserted in that suit that Gross and OmniSearch had created their product by unlawfully copying the Mead CD-ROM. The lawsuit was settled through entry of a consent judgment and injunction in favor of Mead that required Gross and OmniSearch to cease selling their Georgia disc and destroy all of the computer tapes created by the improper copying.

Charles Murphy, West's counsel in Atlanta, said, "You would have thought that Gross would have learned his lesson from the Mead lawsuit. Instead, as evidence of his willful disregard for copyright law and the law of unfair competition, Gross simply copied West's proprietary product and shifted his unlawful activities to Florida."

Joseph M. Musilek, West's Minnesota attorney, said that "We met with Gross in an effort to get him to voluntarily delete the misappropriated

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with Gross in an effort to get him to voluntarily delete the misappropriated data from his product, and he was upfront in admitting that he created his product by scanning West's books.".

****************************** Bottom Of Data ******************************

Exhibit 5

"West Moves to Protect Opinions", New York Law Journal, December 27, 1993.

Infringement Prosecuted

West Moves to Protect Opinions

BY VICTORIA SLIND-FLOR
National Law Journal Staff Reporter

WHILE LEGAL publishers have been quick to embrace technological advances such as fax machines and CD-ROMs, they've also learned the hard way that these tools can facilitate others' unauthorized use of their material.

In the last several years, West Publishing Co. of Eagan, Minn., has filed a series of suits in various federal courts seeking to halt unauthorized use of West's collected judicial opinions. The most recent case, filed this month in U.S. District Court for the Central District of California, involves a former law librarian from a Los Angeles firm who provides a service to law firms and other clients by allegedly photocopying West opinion books at the Los Angeles County Law Library and delivering them by fax and messenger. *West v. Houger*, 93 7137 TJH.

"This is the fourth such case in the past three years, and I wouldn't be surprised if there weren't other similar services West hasn't heard of yet," says West's lawyer, Joseph M. Musilek of Minneapolis' Heins, Schatz & Paquin. The other cases were in Miami, Atlanta and Los Angeles.

Technology makes it all too easy. "If you want to be a rip-off artist, there are all kinds of technological tools to do it," Mr. Musilek says. "The photocopy machine, the fax and the scanner are a triple threat to publishers."

The other part of the problem arises because many people correctly assume that court decisions are in the public domain. But they get the raw opinions confused with the case reports contained in books, CD-ROMs and fax services that West and other

Continued on page 32

New Case Tests Double Jeopardy

BY RANDALL SAMBORN
National Law Journal Staff Reporter

CHICAGO — A reputed mob hit man who was acquitted of murder in a controversial 1977 bench trial here has been re-indicted for the same offense, launching a case that experts agree could become a landmark test of double jeopardy.

Cook County State's Attorney Jack O'Malley says that alleged assassin Harry Aleman knew his trial was a fraud because the judge who found him innocent was bribed by an admittedly corrupt lawyer who is expected to testify for the state in any retrial.

Mr. Aleman "was never in jeopardy of being convicted," says Mr. O'Malley. "The Constitution does not protect people who fix murder cases or bribe judges. His trial was a sham and double jeopardy does not apply." But criminal law scholars say that reopening the case, which resulted in public outrage at the time and helped spawn the Operation Greylord federal corruption probe of Cook County judges, raises novel issues that will take time to be resolved.

And Chicago defense lawyer Allan A. Ackerman, who represents Mr. Aleman, says the new indictment announced Dec. 8 suffers multiple "infirmities," including violations of double jeopardy, speedy trial and due process protections under both the Illinois and U.S. constitutions.

"The prosecution can point to no Illinois authority which has ever found that an acquittal in a court of competent jurisdiction can later lead to a refiling of the same charges and, quite to the contrary, the authorities are against the public prosecutor's position," Mr. Ackerman says.

Under the Fifth Amendment and state constitution bars against double jeopardy, "generally an acquittal is an acquittal and that's it," says criminal law Prof. Wayne R. LaFave of the University of Illinois College of Law.

But the facts and arguments in this case are likely to require a chain of appellate rulings, he adds.

And Prof. Stephen J. Schulhofer, director of the Center

RIGGED ACQUITTAL: Prosecutor Jack O'Malley, who reindicted an acquitted hitman, says the Constitution does

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In West's Opinion, Unauthorized Copies Violate Copyrights

Continued from page 3

legal publishers provide.

"Our books contain trademarked head notes, and a copyrighted selection and arrangement of elements not contained in the decision as first issued by the court," says Mark Musilek.

He says he's seeing two categories of people involved in West's copyright cases. "Some of them are tech people who've figured out how to use equipment to get this stuff. They put two and two together and figure out it's valuable enough for somebody else to buy. These people are just computer nerds who may not understand copyright law."

Falling into the other category are people he says are "more disreputable, who may understand copyright law but aren't stopped by their knowlege."

More Than Retrieval?

The defendant in the Los Angeles case is James Scott Hauger, a former law librarian at Sheppard, Mullin, Richter & Hampton, who has run the California Law Retrieval Service for the last six years. "He may have picked up a bad habit as a law librarian," Mr. Musilek says. "But it's a giant step from making convenience copies to selling them."

Mr. Hauger is represented by his brother, H. Keith Hauger, a Pittsburgh-based intellectual property sole practitioner.

The attorney, Mr. Hauger, says the operation of his brother's company could be analogized to a junior associate being sent to the law library to retrieve some information for a senior partner or a general counsel. "Anyone can go to the library, copy something out for your own edification," he says. "Would West do anything about that?"

But Mr. Hauger is selling more than a retrieval service, Mr. Musilek says. "All the defendants in these case use retrieval as a defense. But nobody calls California Law Retrieval Service to deliver a cake to their mother-in-law. [The clients] are not buying a delivery service, they are buying a copy of West's copyrighted material."

> 'There are all kinds of . . . tools. The photocopy machine, the fax and the scanner are a triple threat to publishers.'

Mr. Musilek says the other three cases all settled under consent decrees "shortly after the defendants got copyright counsel" who showed them they were copying protected material. But in the future, West may not behave so benignly to infringers. In fact, in the the Los Angeles case involving Mr. Hauger's company, West is seeking more than an injunction ending any unauthorized copying. West is also asking for statutory damages, the impounding of all infringing material and the award of attorney fees.

No Photocopying

Although recent case law strictly construed would allow virtually no photocopying by any commercial entity of copyrighted material, Mr. Musilek says West has no intention of becoming that hard-nosed and going after lawyers who copy case reports for their own convenience.

But a lawyer who might see a key ruling in a West report and send photocopies to 200 clients would be in a different situation, he acknowledges, though for now, the legal publisher wouldn't necessarily go after that lawyer.

In Atlanta, Bradley S. Slutsky of that city's King & Spalding is representing Mead Data Central in a case involving the sale of CD-ROMs allegedly containing Mead Data's case reports. *Mead Data Central Inc. v. Mitchell Cross*, 1-93-CV-329-ODE. The case has been resolved confidentially with a permanent injunction, and Mr. Slutsky refused to divulge any details.

But he said he is finding that sometimes hackers just can't resist the temptation to try to capture just the public domain material from his company's disks. "But is that a fair use under copyright law?" he asks.

Mr. Slutsky, who is a computer programmer and runs a small software company in addition to his law practice says he's learned a thing or two about hackers.

"Anything that can be locked by a computer can be unlocked by a person, and people get the idea that if they do something bad along the way to get something that is arguably good [like a judicial opinion], then that amounts to fair use," Mr. Slutsky says.

Keene and Plaintiffs Argue Over Its Assets

Continued from page 3

Plaintiffs' attorneys Frederick M. Baron of Dallas' Baron & Budd, Gene Locks of Philadelphia's Greitzer & Locks and Stanley Levy of New York's Levy, Phillips & Konigsberg, who among them assert they have $16 million in final judgments, argued Keene is not entitled to the money.

Keene adversaries based their argument in part on a recent 5th U.S. Circuit Court of Appeals decision, which [illegible]

Weisfelner of New York's Berlack, Israels & Lieberman that paying such judgments would cause a new "run."

Keene has pending against it 75 final judgments worth about $28 million and Mr. Coyne testified there are 209 total judgments pending against Keene worth $63 million. Throughout his testimony, plaintiffs' lawyers tried to show that their clients were entitled to collect. Of Keene's 104,681 present cases, Mr. Baron's firm has 3,130 cases [illegible]

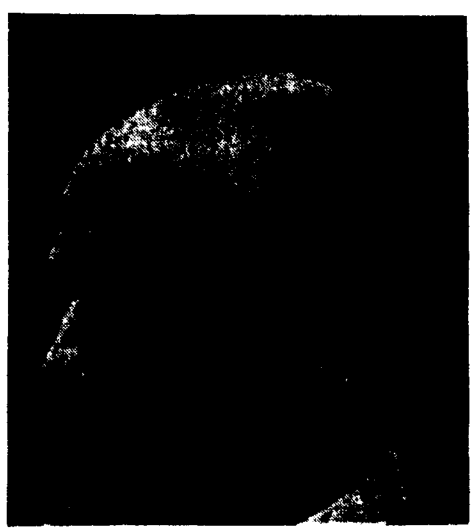


Exhibit 6

Complaint in *Matthew Bender v. West Publishing Company*, No. Civ. 94-0589 (United States District Court, S.D.N.Y., January 31, 1994)

JUDGE PRESKA

DEUTSCH KLAGSBRUN & BLASBAND
David Blasband DB 7069
800 3rd Avenue
New York, New York 10022-7604
(212) 758 1100
DB 7069

94 CIV. 0589

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

MATTHEW BENDER & COMPANY, INC., Plaintiff,	:	JURY TRIAL DEMANDED
-against-	:	COMPLAINT
WEST PUBLISHING COMPANY, Defendant.	:	

Plaintiff Matthew Bender & Company, Inc. ("Matthew Bender") alleges on information and belief as follows:

JURISDICTION AND VENUE

1. This Court has subject matter jurisdiction over this action under 28 U.S.C. §§1331 and 1338(a) in that this action arises under the United States copyright laws, 17 U.S.C. §101 et seq.

2. Plaintiff Matthew Bender is a corporation organized and existing under the laws of the State of New York with its principal place of business at 11 Penn Plaza, New York, N.Y.

3. Defendant West Publishing Company ("West") is a privately held corporation organized and existing under the laws of the State of Minnesota, with its principal place of business in the County of Dakota, Minnesota. West maintains an office and systematically and continuously transacts business within the Southern District of New York.

4. Venue is proper in the Southern District of New York pursuant to 28 U.S.C. §§ 1391(b) and 1400(a).

FACTUAL BACKGROUND

5. Matthew Bender is one of this country's leading legal publishers. Matthew Bender publishes, inter alia, treatises, form books, casebooks and practice guides.

6. West is this country's largest publisher of legal materials. West is the only publisher in book form of comprehensive reports of the published decisions of the United States Courts of Appeals and the United States District Courts (collectively "the lower federal courts") in Federal Cases, Federal Reporter, Federal Reporter - 2d Series, Federal Reporter - 3d Series, Federal Supplement and Federal Rules Decisions (collectively "West's federal reporters").

7. The United States government does not publish a reporter containing the comprehensive published decisions of the lower federal courts. The comprehensive lower federal court opinions can be obtained from the lower federal courts or other government sources only in the form of slip opinions.

8. A fundamental governing principle of the U.S. legal system is stare decisis, the doctrine that relevant precedents from within a jurisdiction are binding authority. Within the federal court system, published federal lower court decisions are accordingly a primary source of law. The federal judiciary and attorneys practicing law in the federal courts must therefore have access to published judicial opinions to determine whether binding or persuasive precedent exists. In order to present arguments regarding relevant precedent to a court, an attorney must be able to provide the court with a precise citation to pertinent judicial

decisions so that they can be examined and their legal import assessed by the court. Courts, moreover, cite other judicial opinions to show that their decisions are consonant with binding precedent. In sum, stare decisis requires that judicial decisions be available to attorneys and the courts for the purposes of citation.

9. West's federal reporters have obtained de facto status as the official reporters of the lower federal courts for the purposes of citation. West's federal reporters have obtained this status for several reasons. As previously noted, West is the only publisher in book form of a comprehensive collection of the decisions of the lower federal courts. The rules adopted by many of the federal courts (e.g., the local rules of the Third Circuit Court of Appeals) require that citations in briefs presented to the court be to the appropriate volume and page number of West's federal reporters. A Uniform System of Citation (the "Bluebook") also requires citation to the volume and page number of the West federal reporter on which the decision begins, and the page or pages on which the relevant material appears (the "pinpoint citation"). The Bluebook citation form, which sets the standards for citations in legal writing, has been adopted by the local rules of certain courts (e.g., the Eleventh Circuit Court of Appeals), thereby further extending the official status of citation to the volume numbers and pagination of West's federal reporters. In accord with the standards promulgated by the Bluebook, citation to the volume and appropriate page numbers of West's federal reporters, including the pinpoint citation, is

considered by the legal community to be the proper method of citation in memoranda of law submitted to the United States Supreme Court or the lower federal courts. Thus, by necessity, law and practice, attorneys must cite to the appropriate volume and page numbers in West's federal reporters in order to practice law in courts throughout the nation.

10. The official status of citations to the volume and page numbers of the West federal reporters is further reflected in their use as the standard citation form in the printed opinions of the United States Supreme Court and the printed slip opinions of the lower federal courts. For example, in the United States Reports, which is the United States government's official reporter of United States Supreme Court decisions, citations to lower federal court decisions almost invariably consist of a citation to the volume and appropriate page numbers, including the pinpoint citation, of the West federal reporter in which the decision and pertinent passages were published.

11. Matthew Bender currently publishes a number of its legal publications in a CD-ROM format. CD-ROM, an acronym that stands for "Compact Disc-Read Only Memory," is a computer data storage medium that stores textual information on the same type of Cds that are used for audio recordings. It is possible to store up to 600 million textual characters -- the equivalent of approximately one hundred fifty thousand pages of printed text -- on one CD-ROM disc. The textual information stored on a CD-ROM disc is read by a computer equipped with a CD-ROM drive and appropriate software.

Matthew Bender has developed software for this purpose, known under the trademark "Search Master."

12. CD-ROM publications typically offer several advantages over publications in book form. A CD-ROM version of a work takes up a fraction of the space occupied by its conventional printed counterpart. In addition, when used with the appropriate software, a document stored on CD-ROM offers the reader many of the capabilities that are available to a reader using on-line text retrieval services such as LEXIS and WESTLAW. A reader of a Matthew Bender CD-ROM publication can, for example, use Search Master software to locate items in the text by using word searches, jump quickly and directly to other portions of a CD-ROM publication, and can print out selected portions of the publication or download them to computer disk. In contrast to on-line text retrieval services, however, the reader of a CD-ROM publication does not incur charges for being on-line, for searching or for printing.

13. Matthew Bender will publish a new CD-ROM publication entitled "Search Master New York Practice Library With Cases". The first release of this publication will be a comprehensive collection of published and unpublished decisions of the Second Circuit Court of Appeals, and the four United States District courts within the State of New York, covering the last five years. Future releases will include earlier years.

14. In preparation for publication, Matthew Bender has collected pertinent judicial opinions in slip opinion form from government sources. The slip opinions are then converted into an

electronic form by such methods as optical scanning and manual keying. Matthew Bender will add to the electronic text of opinions, at Matthew Bender's facilities in New York, the volume number and pagination of the opinions as they appear in West's federal reporters.

15. Matthew Bender will not add to the electronic text of the opinions the case synopses, headnotes or topic designations from West's federal reporters or any copyrightable material from West's federal reporters.

16. West incorrectly contends that it possesses federal statutory copyright in the pagination in West's federal reporters.

17. West has threatened to initiate suit against Matthew Bender if Matthew Bender includes the pagination of West's federal reporters in Matthew Bender's CD-ROM publications. West has already brought suit against other publishers for alleged copyright infringement due to copying the pagination from West's reporters, including the pagination in West's federal reporters.

CAUSE OF ACTION FOR DECLARATORY RELIEF

18. Matthew Bender repeats and realleges the allegations of paragraphs 1 through 19 above, and incorporates those allegations herein by reference.

19. West's threat of litigation has placed a cloud over Matthew Bender's imminent publication of Search Master New York Practice Library With Cases. Matthew Bender wishes to continue its publication of Search Master New York Practice Library With Cases unencumbered by meritless assertions that it is infringing a valid copyright by copying the pagination from West's federal reporters.

20. Contrary to West's assertions, West does not have a federal statutory copyright in the pagination in West's federal reporters. Moreover, even if West possesses a valid federal copyright in the pagination in West's federal reporters (which it does not) Matthew Bender's intended use of the pagination from West's federal reporters described herein does not constitute infringement because it is a "fair use" and is otherwise defensible.

21. An actual controversy has thus arisen between Matthew Bender and West concerning the parties' respective copyright rights in the pagination in West's federal reporters. A judicial determination and declaration of the parties' respective copyright rights in the pagination of West's federal reporters is necessary and appropriate at this time in order that Matthew Bender may ascertain its rights and duties under applicable law and remove the cloud created by West's threat of litigation.

22. Accordingly, Matthew Bender requests that this Court determine and declare, pursuant to 28 U.S.C. § 2201, that Matthew Bender's intended use of pagination from West's federal reporters is a noninfringing use because West does not possess a federal copyright in the pagination in West's federal reporters.

23. In the alternative, Matthew Bender requests that this Court determine and declare, pursuant to 28 U.S.C. § 2201, that Matthew Bender's intended use of pagination from West's federal reporters is a noninfringing use because Matthew Bender's intended use is a fair use and by reason of any other valid defense to infringement.

PRAYER FOR RELIEF

WHEREFORE, Matthew Bender prays for relief against defendant West as follows:

1. For a judicial determination and declaration that West does not possess a federal statutory copyright in the pagination in West's federal reporters.

2. For a judicial determination and declaration that Matthew Bender will not infringe any copyright of West's by its intended copying of the pagination from West's federal reporters.

3. For the recovery of full costs and reasonable attorney's fees pursuant to 17 U.S.C. § 505.

4. For such additional and further relief, in law and equity, as may be deemed just and appropriate.

DATED: January 31, 1994.

Respectfully submitted,

DEUTSCH KLAGSBRUN & BLASBAND

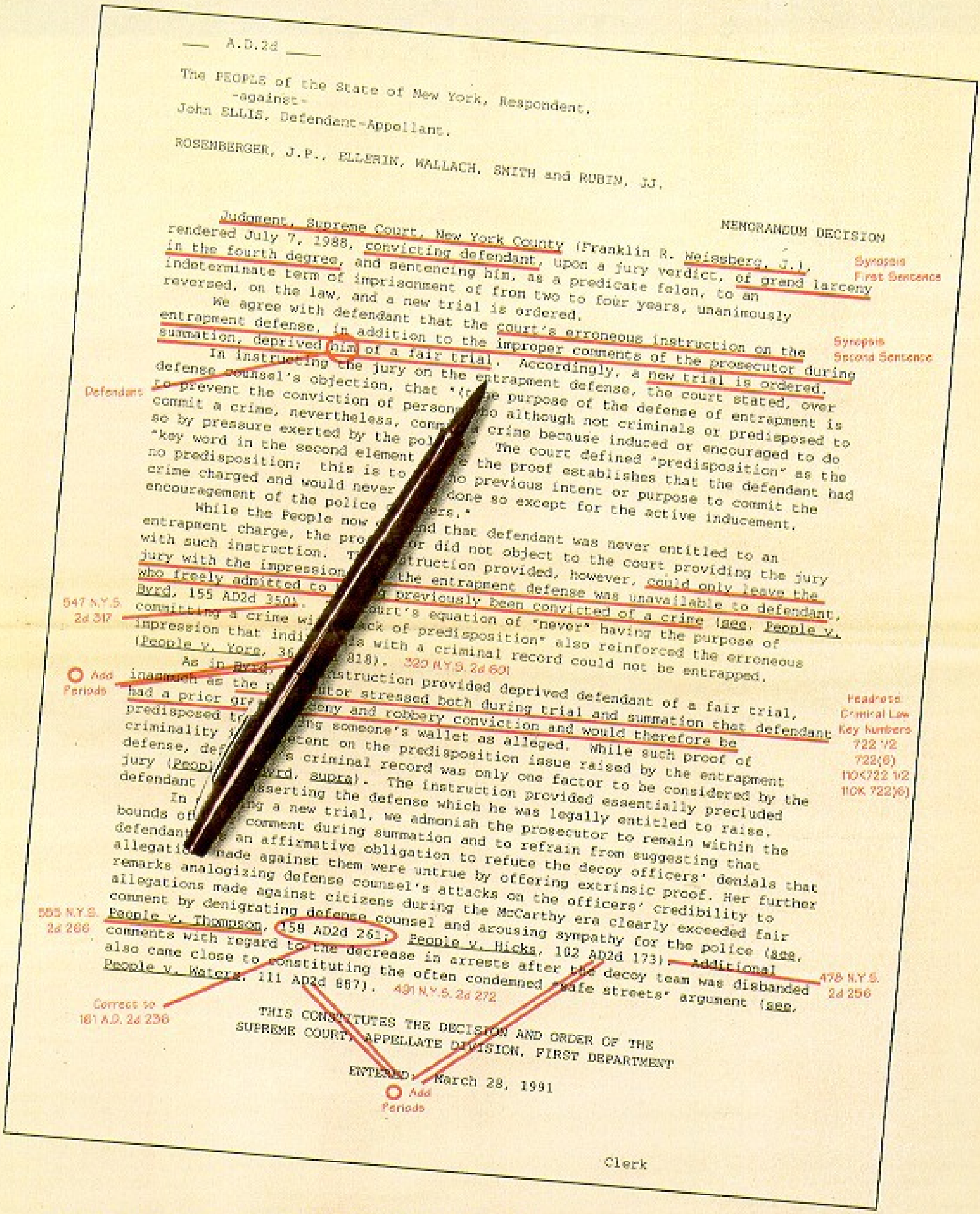
By ____________________
David Blasband DB 7069
Attorneys for Plaintiff
Matthew Bender & Company, Inc.
800 Third Avenue
New York, New York 10022
(212) 758-1100

Of Counsel:

IRELL & MANELLA
Morgan Chu
David Nimmer
Elliot Brown

Exhibit 7

West Publishing Company, Advertisement, "The difference between raw text and a West Full-Text Plus tm opinion is black and white...", National Law Journal, July 27, 1992, Pages 6-7.



— A.D.2d —

The PEOPLE of the State of New York, Respondent,
-against-
John ELLIS, Defendant-Appellant.

ROSENBERGER, J.P., ELLERIN, WALLACH, SMITH and RUBIN, JJ.

MEMORANDUM DECISION

Judgment, Supreme Court, New York County (Franklin R. Weissberg, J.),
rendered July 7, 1988, convicting defendant, upon a jury verdict, of grand larceny
in the fourth degree, and sentencing him, as a predicate felon, to an
indeterminate term of imprisonment of from two to four years, unanimously
reversed, on the law, and a new trial is ordered.

We agree with defendant that the court's erroneous instruction on the
entrapment defense, in addition to the improper comments of the prosecutor during
summation, deprived him of a fair trial. Accordingly, a new trial is ordered.

In instructing the jury on the entrapment defense, the court stated, over
defense counsel's objection, that "(t)he purpose of the defense of entrapment is
to prevent the conviction of persons who although not criminals or predisposed to
commit a crime, nevertheless, comm... crime because induced or encouraged to do
so by pressure exerted by the pol... The court defined "predisposition" as the
"key word in the second element ... the proof establishes that the defendant had
no predisposition; this is to ... no previous intent or purpose to commit the
crime charged and would never ... done so except for the active inducement,
encouragement of the police ...ers."

While the People now ...nd that defendant was never entitled to an
entrapment charge, the pro...or did not object to the court providing the jury
with such instruction. T... ...truction provided, however, could only leave the
jury with the impression... the entrapment defense was unavailable to defendant,
who freely admitted to ... previously been convicted of a crime (see, People v.
Byrd, 155 AD2d 350). ...ourt's equation of "never" having the purpose of
committing a crime wi... ...ack of predisposition" also reinforced the erroneous
impression that indi...s with a criminal record could not be entrapped.
(People v. Yoro, 36... 818).

As in Byrd, ...nstruction provided deprived defendant of a fair trial,
inasmuch as the p...utor stressed both during trial and summation that defendant
had a prior gr... ...ceny and robbery conviction and would therefore be
predisposed t... ...ng someone's wallet as alleged. While such proof of
criminality ... ...etent on the predisposition issue raised by the entrapment
defense, def... ...'s criminal record was only one factor to be considered by the
jury (Peopl... ...yrd, supra). The instruction provided essentially precluded
defendant ... ...

In ... ...sserting the defense which he was legally entitled to raise.
...ng a new trial, we admonish the prosecutor to remain within the
bounds of ... comment during summation and to refrain from suggesting that
defendant ... an affirmative obligation to refute the decoy officers' denials that
allegatio... made against them were untrue by offering extrinsic proof. Her further
remarks analogizing defense counsel's attacks on the officers' credibility to
allegations made against citizens during the McCarthy era clearly exceeded fair
comment by denigrating defense counsel and arousing sympathy for the police (see,
People v. Thompson, 158 AD2d 261; People v. Hicks, 102 AD2d 173). Additional
comments with regard to the decrease in arrests after the decoy team was disbanded
also came close to constituting the often condemned "safe streets" argument (see,
People v. Waters, 111 AD2d 887).

THIS CONSTITUTES THE DECISION AND ORDER OF THE
SUPREME COURT, APPELLATE DIVISION, FIRST DEPARTMENT

ENTERED: March 28, 1991

Clerk

Exhibit 8

Letter Dated July 1, 1991,
Alan D. Sugarman,
HyperLaw, Inc. to
Timothy Blank, Esq.,
West Publishing Co.

HyperLaw, Inc.

17 W. 70 St.
New York, N.Y. 10023
(212) 873-6982
(212) 496-4138 (Fax)

Alan D. Sugarman, B.S.E.E., J.D.
President

July 1, 1991

Timothy Blank, Esq.
General Counsel
West Publishing Co.
50 W. Kellogg Blvd.
P.O. Box 64526
St. Paul, MN 55164-0526

Dear Mr. Blank:

We are developing a hypertext product for public commercial distribution, which will include the full text of certain court decisions in both printed and electronic form. We do not wish to infringe West Publishing Co. ("West") copyrights in published material, if that material is properly protected by the copyright laws.

This present letter concerns only federal court decisions published in the Federal Reporter and the Federal Supplement. Those reporters do not describe the relationship between West and the United States District Courts and Courts of Appeals, and the judges and clerks for those courts. West states as follows:

> Copyright is not claimed as to any part of the original work prepared by a United States Government officer or employee as part of that person's official duties.

West then purports to copyright the entire contents of the Federal Reporter and Federal Supplement <u>without delineating material in which copyright is not claimed</u>.

We understand that federal judges make determinations as to which decisions are to be published. In at least some courts, local rules do not permit citation to so-called unpublished decisions. It would also appear that the publication contemplated in those rules is in most cases the Federal Reporter and the Federal Supplement.

<u>U.S. Dept. of Justice v. Tax Analysts</u>, 109 S.Ct. 2841 (1989), would appear to indicate that West in some instances may receive preferential treatment from the clerks of the various courts.

We are aware of <u>West Publishing Co. v. Mead, 799 F.2d 1219 (9th Cir. 1986)</u>. That dispute was between two dominant competitors with, one would assume, a mutual interest in discouraging competition from third parties. It is probable that other parties affected by the issues raised would have presented additional facts, or would have contested contentions of facts that were presented. In our view, even if that decision were correctly decided at the time and had any applicability outside the intramural dispute, it would appear that its precedential value is undermined by Feist Publications Inc. v. Rural Telephone Service Co., Inc.,111 S.Ct. 1282 (1991).

In order to obtain the text of federal court decisions, we intend to utilize on or more of the following alternatives.

ALTERNATIVE I. It is our intention to obtain copies of the Federal Reporter and Federal Supplement, scan selected cases into a computer and perform computerized optical character recognition on the scanned images. We will remove all West Key Numbers and West Digests and case summaries (but only if clearly marked as prepared by West) from the scanned text. We will not remove the West citation of the first page and will not remove the so called star pagination, which are the interior page numbers. We will then transfer the scanned data to electronic media or to printed form for public distribution.

ALTERNATIVE II. We will perform the same steps as in Alternative I, but will remove all star pagination numbers.

ALTERNATIVE III. Using a valid WestLaw account, we will download the decisions and then delete as in Alternative I.

ALTERNATIVE IV. Same as in Alternative III, but we will remove star pagination.

Please let us know within 30 days as to whether, in the opinion of West, any of the foregoing alternatives would be deemed to be a violation of West's copyrights or would in any other way infringe the rights of West. Otherwise, we will assume that all of the foregoing alternatives are acceptable to West.

Another option would be for West to provide a license to us, and, that in return, we will program an automatic dial-up from the hypertext program into Westlaw. If you wish to discuss this alternative, please telephone me.

Sincerely,

Alan D. Sugarman

ADS:eg

Exhibit 9

Letter Dated August 1, 1991,
James E. Schatz, Opperman
Heins Paquin to
Alan D. Sugarman,
HyperLaw, Inc.

OPPERMAN HEINS & PAQUIN
ATTORNEYS AT LAW
2200 WASHINGTON SQUARE
100 WASHINGTON AVENUE SOUTH
MINNEAPOLIS, MINNESOTA 55401
TELEPHONE (612) 339-6900
FACSIMILE (612) 339-0981

1300 I STREET, N.W.
EAST TOWER, SUITE 480
WASHINGTON, D.C. 20005
TELEPHONE (202) 962-3850
FACSIMILE (202) 962-3861

August 1, 1991

Mr. Alan D. Sugarman
HyperLaw, Inc.
17 West 70 Street
New York, NY 10023

Dear Mr. Sugarman:

West Publishing Company has asked us to respond to your letter to Tim Blank of July 1, 1991. Your letter reveals a complete lack of understanding of the relevant facts, copyright law and the West v. Mead and Feist decisions cited. We suggest that you retain competent copyright counsel to give you the advice you seek. After obtaining such advice, you may wish to make a specific proposal for a license. You should contact me if you wish to do so. If you proceed in any other way, you do so at your own risk.

Very truly yours,

OPPERMAN HEINS & PAQUIN

James E. Schatz

JES/C1

Exhibit 10

Letter Dated August 12,
1991, Alan D. Sugarman,
HyperLaw, Inc. to
James E. Schatz,
Opperman Heins Paquin.

ALAN D. SUGARMAN
ATTORNEY AT LAW
SUITE 4
17 WEST 70TH STREET
NEW YORK, NEW YORK 10023

TELEPHONE
(212) 873-6982

FACSIMILE
(212) 496-4138

August 12, 1991

Mr. James E. Schatz
Opperman Heins & Paquin
2200 Washington Square
100 Washington Ave. South
Minneapolis, MN 55401

Dear Mr. Schatz:

As counsel for HyperLaw, Inc., I am responding to your letter of August 1, 1991. Your letter was in answer to my letter of July 1, 1991, to the General Counsel of West Publishing Company.

To narrow the issues so you may frame a response, this letter will address only Alternative II as discussed in the July 1, letter. HyperLaw would optically scan and character-recognize and/or retype cases from the Federal Reporter 2d and Federal Supplement, and would then redact (delete) the key digests, key numbers, internal pagination, and any summaries which on their face are the original product of West Publishing Company (hereinafter "West"). The textual material remaining will be defined herein as "redacted cases". HyperLaw would then distribute the "redacted cases" in computer format.

As noted in the prior letter, West, in its copyright notice states:

> Copyright is not claimed as to any part of the original work prepared by a United States Government officer or employee as part of that person's official duties.

The narrow question which I request that West or its counsel answer is: would West claim any copyright interest in these "redacted cases"? This is a question that only West and/or its copyright counsel can answer.

As to another issue, the copyright license which you mentioned in your letter, let me respond this way. HyperLaw wishes to use in its electronic publications the computer readable ASCII text of approximately 250 Federal Supplement and Federal Reporter 2d "redacted cases" from the years 1988 to 1990. These "redacted cases" will be distributed by HyperLaw, along with other material, on CD-ROMs and computer diskettes.

If West does indeed claim a copyright in "redacted cases", then please advise me of the terms of a license for these approximately 250 "redacted cases." Obviously, if West has no copyright interest, then there is no need for a copyright license.

The foregoing is not a hypothetical: HyperLaw is currently developing and authoring of these materials for CD-ROM and diskette publication in the late fall. Because of this timetable, your immediate response within five business day is requested and would be appreciated.

Finally, would you please clarify the last sentence to your letter in which you state "If you proceed in any other way, you do so at your own risk." Are you stating that West would take legal action against HyperLaw if HyperLaw were to publish "redacted cases" without the permission of West?

Yours truly,

Alan D. Sugarman

ADS:eg

Exhibit 11

Letter Dated August 21,
1991, James E. Schatz,
Opperman Heins Paquin to
Alan D. Sugarman,
HyperLaw, Inc.

OPPERMAN HEINS & PAQUIN
ATTORNEYS AT LAW
2200 WASHINGTON SQUARE
100 WASHINGTON AVENUE SOUTH
MINNEAPOLIS, MINNESOTA 55401
TELEPHONE (612) 339-6900
FACSIMILE (612) 339-0981

1300 I STREET, N.W.
EAST TOWER, SUITE 480
WASHINGTON, D.C. 20005
TELEPHONE (202) 962-3850
FACSIMILE (202) 962-3861

August 21, 1991

Mr. Alan D. Sugarman
Suite 4
17 West 70th Street
New York, NY 10023

Dear Mr. Sugarman:

I am responding to your letter of August 12.

I thought my letter of August 1 was pretty clear. You obviously don't understand relevant copyright law and I again suggest that you obtain competent copyright counsel to give you the advice you seek (you might specifically inquire as to the affect of 17 U.S.C. § 106). West is not in the business of giving such advice.

With respect to a possible license, if you are interested, please identify the cases you are interested in, describe the subject matter and purpose of the CD-ROM and/or diskette products you propose to use such cases as a part of and state the number of CD-ROMs and/or diskettes you plan to create.

Finally, I believe that the last sentence of my previous letter was -- and remains -- clear.

Very truly yours,

OPPERMAN HEINS & PAQUIN

James Schatz

James E. Schatz

JES/C1

Exhibit 12

Letter Dated September 19,
1991, Alan D. Sugarman,
HyperLaw, Inc. to
James E. Schatz,
Opperman Heins Paquin.

ALAN D. SUGARMAN

ATTORNEY AT LAW
SUITE 4
17 WEST 70TH STREET
NEW YORK, NEW YORK 10023

TELEPHONE
(212) 873-6982

FACSIMILE
(212) 496-4138

September 19, 1991

Mr. James E. Schatz
Opperman Heins & Paquin
2200 Washington Square
100 Washington Ave. South
Minneapolis, MN 55401

Dear Mr. Schatz:

Thank you for your letter of August 21, 1991 responding to my letter of August 12, 1991. Your letters may be clear to your client, but it is a mystery known only to your client as to what it is in its reporters in which it does **not** claim a copyright.

Let me be clear: it is premature to discuss a license agreement until such time as West Publishing Company asserts a specific copyright or other interest in the specific material that HyperLaw wishes to use. Because of the broad, sweeping and non-specific copyright claims and assertions made by West, it is also premature to involve copyright counsel until such time as West articulates that West indeed asserts copyright claims in the specific material we wish to publish.

Accordingly, in order to attempt to ascertain West's position, HyperLaw has photocopied from West's Federal Reporter 2d one of the decisions that HyperLaw wishes to scan and then extract material to publish. The case is Mendel v. Gollust, 909 F.2d 724 (2nd Cir. 1990). HyperLaw has then redacted (blocked out) all portions of the decision as to which, based upon a good faith reading of West copyright notices and reported decisions involving your client, HyperLaw believes that West might assert a copyright or other claim. The "Redacted Version" is enclosed herewith and HyperLaw in good faith believes that everything in the Redacted Version is public domain information.

The Redacted Version was then prepared for scanning. Introductory material (including the caption, docket numbers, etc.) was reorganized into HyperLaw format, footnotes were moved, the court was accurately identified as it identifies itself, and other additional information was added. I enclose a copy of the "Scanning Version".

HyperLaw then scanned the "Scanning Version", reformatted the text and created the "HyperLaw Version", which also is enclosed.

HyperLaw intends, subject to reasonable articulated objections by West, to commercially publish the HyperLaw Version along with other cases and text. Some of these cases would come from similarly redacted cases found in West publications. Other cases would come from other sources including official reports. The cases and other text would be published in computer format.

We respectfully request that you advise HyperLaw as to what copyright or other interest West asserts in the HyperLaw Version were it to be published by HyperLaw as described. In other words, if West asserts any interest in the material, we demand that West take the HyperLaw Version and delineate specifically the text in which West asserts a copyright or other interest.

If you would provide this response, then we would be able to consult copyright counsel to obtain an opinion as to West's position, as you have suggested. If copyright counsel concludes that there is substantial merit to any assertions made by West, then we can discuss those assertions and possibly a copyright license.

Because of the veiled but undeniable threats of litigation expressed in your two prior letters, the broadly asserted copyright claims of West and reported decisions and newspaper reports of prior West litigation concerning copyright infringement, HyperLaw has not included text from redacted cases found in West publications in its first edition releases of its products.

HyperLaw currently is planning the second edition releases, and needs a response as soon as reasonably possible. We would hope to have your response within the next two weeks.

Yours truly,

Alan D. Sugarman

ADS:eg

Enc.

[redacted]

Ira L. MENDELL, in Behalf of VIACOM, INC. and, alternatively, Viacom International, Inc., Plaintiffs–Appellants,

v.

Keith R. GOLLUST, Paul E. Tierney, Jr., Augustus K. Oliver, Gollust Tierney and Oliver, Gollust & Tierney, Inc., Coniston Partners, Coniston Institutional Investors, Baker Street Partners, WJB Associates, Helston Investment, Inc., Viacom Inc., and Viacom International, Inc., Defendants–Appellees.

[redacted]

[redacted]

[redacted]

[redacted]

curities Exchange Act of 1934, § 16(b), 15 U.S.C.A. § 78p(b).

Irving Malchman (Kaufman Malchman Kaufmann & Kirby, New York City, of counsel), for plaintiffs-appellants.

Edwin B. Mishkin (James W. Pharo, Michael S. Sommer, Cleary, Gottlieb, Steen & Hamilton, New York City, of counsel), for defendants-appellees other than nominal parties Viacom Inc., and Viacom Intern., Inc.

S.E.C. (Daniel L. Goelzer, Gen. Counsel, Jacob H. Stillman, Associate Gen. Counsel, Thomas L. Riesenberg, Asst. Gen. Counsel, Leslie E. Smith, Atty., and Paul Gonson, Sol., Washington, D.C., of counsel), filed a brief for the S.E.C., amicus curiae.

Before OAKES, Chief Judge, CARDAMONE, Circuit Judge, and POLLACK, District Judge.*

CARDAMONE, Circuit Judge:

This appeal deals with a suit brought to recover short-swing profits against insiders which was dismissed in the district court. It is clear from Supreme Court precedent that liability for short-swing trading will not arise unless the securities transactions at issue fall within the literal language of the statute that prohibits over-reaching by insiders. Here plaintiff's standing to bring suit against insiders, rather than such individuals' liability, is the question presented. In resolving this issue the words of the statute must still be carefully examined, but legislative purpose may also be considered where standing is not clearly precluded by the statutory language. Congressional policy is a stubborn thing; it permeates this area of the law. In resolving this case therefore we must not defeat Congress' plain policy by viewing standing too narrowly.

BACKGROUND

Before us is an order of the Southern District of New York (Mukasey, J.), entered November 9, 1988 that granted summary judgment to defendants dismissing plaintiff's complaint for lack of standing. Plaintiff also appeals from an order dated May 23, 1989 denying his Rule 60(b) motion for relief from the November 9, 1988 order. Plaintiff appeals that dismissal of his action brought pursuant to § 16(b) of the Securities Exchange Act of 1934, 15 U.S.C. § 78p(b) (1988). Section 16(b) provides that an owner of an issurer's security may bring an action in behalf of the issuer to recover short-swing profits realized by the corporation's officers, directors and principal stockholders. A "short-swing" profit occurs when a profit is realized on a purchase and sale, or sale and purchase, of stock occurring within a period of six months. The statute requires officers, directors and owners of more than ten percent of the issuer's stock (insiders) to disgorge short-swing profits back to the issuer.

The question presented is whether a shareholder whose shares in an issuer are converted by a business restructuring into shares of a newly formed parent corporation that owns all of the stock of the issuer loses standing to maintain a previously instituted § 16(b) suit. Because we think the answer to the question posed is "no," the grant of summary judgment dismissing plaintiff's suit must be reversed.

FACTS

Plaintiff Ira L. Mendell is a former shareholder of Viacom International Inc. (International). Defendants are limited partnerships, general partnerships, individual partners and certain corporations (Coniston or the Coniston defendants) that together invested in the stock of International. In 1986 defendants collectively owned more than ten percent of its stock. In January 1987 plaintiff filed a complaint alleging that Coniston [illegible]able to Inter-

* Hon. Milton Pollack, United States District Court for the Southern District of New York, sitting by designation.

national pursuant to § 16(b) for profits arising out of Coniston's purchases and sales of International stock in 1986. Plaintiff asserted that on trades of International stock made between July and October 1986 the Coniston defendants acquired approximately 11 million dollars in short-swing profits at a time when they were insiders by virtue of their ownership of more than ten percent of International stock. The complaint also alleged that in October 1986 a demand was made upon International and its Board of Directors to institute a § 16(b) suit against the Coniston defendants, but that though more than 60 days had passed no suit had been commenced by International.

Approximately six months later, in June 1987, after plaintiff had filed suit, International was acquired through a merger transaction by Arsenal Acquiring Corporation, a shell corporation formed for that purpose. All of International's stock was exchanged for a combination of cash and stock in Arsenal Acquiring's parent corporation called Arsenal Holdings, Inc., and Arsenal Acquiring then merged into International, which thereby became a wholly-owned subsidiary of the parent, Arsenal Holdings. As part of the merger, Arsenal Holdings changed its name to Viacom, Inc. (Viacom). Thus plaintiff, who held shares in International when he brought suit to recover insider profits for the issuer, now holds shares in its parent, Viacom. Viacom is the sole shareholder of International, and International is the parent corporation's sole asset.

At a pretrial conference held in February 1988 defendants asserted that plaintiff no longer had standing to maintain his § 16(b) suit since he was no longer a shareholder of International. In March 1988 plaintiff served an amended complaint asserting that he had standing to bring the action in behalf of Viacom, the parent corporation, which he claimed was effectively the "issuer." Alternatively, he contended that he had standing to bring the action as a double-derivative action in behalf of International. Coniston moved for summary judgment. On November 9, 1988 the district court granted summary judgment to defendants because plaintiff lacked standing, ruling that "'[s]uits to disgorge ill-gotten gains under § 16(b) may be prosecuted only by the issuer itself or the holders of its securities." *Mendell v. Gollust*, [1988–89] Fed.Sec.L.Rep. (CCH) ¶ 94,086 at 91,086, 1988 WL 123703 (S.D.N.Y.1988).

On January 9, 1989—after the opinion issued but before the judgment of dismissal was entered on January 17, 1989—plaintiff purchased a subordinated note issued by International. In March 1989 plaintiff made a motion pursuant to Fed.R.Civ.P. 60(b) asserting that he now had standing as a noteholder of International, and that the judgment entered some weeks earlier should be vacated. In an opinion dated May 23, 1989 the district court denied the Rule 60(b) motion stating that counsel's failure to advise his client to purchase the note earlier did not provide grounds to overturn the judgment. *See Mendell v. Gollust*, [Current Volume] Fed.Sec.L.Rep. (CCH) ¶ 94,477, 1989 WL 56252 (S.D.N.Y. 1989).

We heard oral argument on November 21, 1989, and on November 28 requested the Securities and Exchange Commission (SEC) to submit an *amicus curiae* brief setting forth its views on plaintiff's standing under § 16(b). We now have the benefit of the SEC's *amicus curiae* brief filed on January 10, 1990.

DISCUSSION

I Section 16(b)

A. *Policy Considerations and Legislative Purpose*

In order to determine how broadly § 16(b)'s standing requirements should be construed, we begin with a brief examination of the policy considerations and the legislative purpose that preceded the enactment of the statute. The Securities Act of 1934 in general and § 16(b) in particular were passed to insure the integrity of the securities markets and to protect the investing public. *See* 15 U.S.C. § 78p(b) (1988); Federal Securities Exchange Act of 1934, S.Rep.No. 792, 73d Cong., 2d Sess. 9

(1934) [*Senate Report*]; 2 L. Loss, *Securities Regulation* 1037–38, 1040–41 (2d ed. 1961).

The Committee on Banking and Currency heard many instances where insiders either personally or through the medium of holding companies made large profits from the use of information not available to the public. *Senate Report* at 9. It concluded that the reporting requirements regarding changes in insider holdings and the provision making profits recoverable on sales or purchases made within six months would render difficult or impossible trading on advance information by insiders for profit. *Id.* The bill's provisions were for the express purpose of preventing the unfair use of inside information. *Id.* at 21.

> Among the most vicious practices unearthed at the hearings before the subcommittee was the flagrant betrayal of their fiduciary duties by directors and officers of corporations who used their positions of trust and the confidential information which came to them in such positions, to aid them in their market activities.

Stock Exchange Practices, Report of the Committee on Banking and Currency, S.Rep.No. 1455, 73d Cong., 2d Sess. 55 (1934). Hence, Congress envisioned § 16(b) as a remedial law that would deter those "intrusted with the administration of corporate affairs or vested with substantial control over corporations [from using] inside information for their own advantage." *Id.* at 68.

B. *Judicial Construction of § 16(b)*

Since its passage the Supreme Court has construed § 16(b) in a number of cases. In the earliest, *Blau v. Lehman*, 368 U.S. 403, 82 S.Ct. 451, 7 L.Ed.2d 403 (1962), it refused to hold an entire partnership liable for short-swing profits as an insider when one of its members was a director of the issuer because the plain language of § 16(b) did not provide for partnership liability, though the director was susceptible to suit in his individual capacity for the profits he realized. *Id.* at 411–14, 82 S.Ct. at 455–57. In *Kern County Land Co. v. Occidental Petroleum Corp.*, 411 U.S. 582, 93 S.Ct. 1736, 36 L.Ed.2d 503 (1973), a tender-offeror that purchased more than ten percent of the stock of Kern County Land Co. had its shares of Kern converted into new Tenneco stock when Tenneco merged with Kern in a defensive transaction. The tender-offeror negotiated a contract to sell to Tenneco the shares it would receive after the merger. Writing that traditional cash-for-stock purchases fall within § 16(b), but that certain "unorthodox" transactions are not so easy to resolve, the Court observed that these "borderline" transactions are within the statute's reach if they are a vehicle promoting the evil Congress sought to prevent. *Id.* at 593–94, 93 S.Ct. at 1744. The Court noted that the transaction in question was not based on a statutory insider's information and therefore was not vulnerable to the speculative abuse barred by § 16(b), and held that neither the exchange of shares in the merger nor the execution of the option contract constituted a "sale" under § 16(b). *See id.* at 600–01, 93 S.Ct. at 1747–48.

In *Reliance Electric Co. v. Emerson Electric Co.*, 404 U.S. 418, 92 S.Ct. 596, 30 L.Ed.2d 575 (1972), Emerson Electric, a holder of more than ten percent of Dodge Manufacturing Co., made two sales of stock within six months after purchasing it, the first of which reduced its holdings to less than ten percent. The question was whether the profits from the second sale, made within six months of its purchase but not while Emerson was a ten percent holder, were recoverable by the corporation under § 16(b). In holding that they were not, the Supreme Court observed that a ten percent owner must under the statute be such " 'both at the time of the purchase and sale ... of the security involved,' " 15 U.S.C. § 78p(b), and since Emerson Electric was not such an owner at the time of the second sale, the method it had used to avoid liability was one permitted by the statute. 404 U.S. at 422–23, 92 S.Ct. at 599–600. The Court reasoned that, because liability under the statute is predicated upon objective proof, a trader's intent and/or motive is irrelevant and hence, Emerson Electric was not liable under § 16(b).

Id. at 425, 92 S.Ct. at 600. In *Reliance* the statutory language was clear; only where differing constructions of § 16(b)'s terms are possible may a court interpret the statute in a way that serves Congress' purpose. *Id.* at 424, 92 S.Ct. at 600. Here, we are faced with the latter scenario.

C. *Broad Interpretation of § 16(b)*

When the statute permits interpretation the section traditionally has been read broadly in view of its remedial purposes. The disgorgement provision is aimed at deterring insider trading by removing the profits from "a class of transactions in which the possibility of abuse [is] believed to be intolerably great." *Id.* at 422, 92 S.Ct. at 599. The statute presumes that insiders in a company have access to nonpublic information regarding its operation and will use that information when trading in the issuer's stock, and thus proof of the actual use of such inside information is not required. *See Foremost-McKesson, Inc. v. Provident Sec. Co.*, 423 U.S. 232, 243, 251, 96 S.Ct. 508, 519, 46 L.Ed.2d 464 (1976); *Reliance Elec.*, 404 U.S. at 422, 92 S.Ct. at 599; *Smolowe v. Delendo Corp.*, 136 F.2d 231, 235–36 (2d Cir.), *cert. denied*, 320 U.S. 751, 64 S.Ct. 56, 88 L.Ed. 446 (1943).

We and most other courts have adopted a "pragmatic" approach, construing § 16(b) in a manner that seems most consistent with Congress' purpose. *See Kern County Land Co.*, 411 U.S. at 594, 93 S.Ct. at 1744 ("the courts have come to inquire whether the transaction may serve as a vehicle for the evil which Congress sought to prevent"); *Reliance Elec.*, 404 U.S. at 424, 92 S.Ct. at 600 ("where alternative constructions of the terms of § 16(b) are possible, those terms are to be given the construction that best serves the congressional purpose of curbing short-swing speculation by corporate insiders."); *Feder v. Martin Marietta Corp.*, 406 F.2d 260, 262 (2d Cir.1969) (courts interpret § 16(b) in ways most consistent with legislative purpose "even departing where necessary from the literal statutory language."), *cert. denied*, 396 U.S. 1036, 90 S.Ct. 678, 24 L.Ed.2d 681 (1970).

II Standing Under § 16(b)

A. *Broadly Construed*

To effectuate its purposes the statute permits "the owner of any security of the issuer" to bring suit in behalf of the corporation. 15 U.S.C. § 78p(b). Such person may institute a § 16(b) claim in behalf of the issuer if the latter fails to bring suit after the stockholder so requests. *See id.* Because such a suit is not brought in his own, but rather the corporation's behalf, § 16(b)'s standing requirements have been given wide latitude. *See Pellegrino v. Nesbit*, 203 F.2d 463, 466 (9th Cir.1953); *see also Prager v. Sylvestri*, 449 F.Supp. 425, 429 (S.D.N.Y.1978) (demand requirement of § 16(b) exists for benefit of the issuer; defendant insider may not assert lack of demand as a defense.). A § 16(b) plaintiff performs a public rather than a private function and is seen as an instrument for advancing legislative policy. *See Magida v. Continental Can Co.*, 231 F.2d 843, 846–47 (2d Cir.), *cert. denied*, 351 U.S. 972, 76 S.Ct. 1031, 100 L.Ed. 1490 (1956).

[redacted] The standing requirements for shareholder derivative suits are not applicable to a § 16(b) plaintiff. *See Blau v. Mission Corp.*, 212 F.2d 77, 79 (2d Cir.), *cert. denied*, 347 U.S. 1016, 74 S.Ct. 872, 98 L.Ed. 1138 (1954); *Rothenberg v. United Brands Co.*, [1977–78] Fed.Sec.L.Rep. (CCH) ¶ 96,045 at 91,691–92, 1977 WL 1014 (S.D.N.Y.); *aff'd mem.*, 573 F.2d 1295 (2d Cir.1977); 2 L. Loss, *Securities Regulation* at 1045–47. Generally a derivative plaintiff must be a shareholder at the time of the transaction of which he complains, the action must not be a collusive one to confer federal jurisdiction, and the complaint must allege with particularity the efforts made to obtain the desired action. *See* Fed.R. Civ.P. 23.1. In contrast, in a § 16(b) suit the complaining stockholder need not have held his securities at the time of the objectionable transaction. *See Blau v. Mission Corp.*, 212 F.2d at 79. Suit may be brought by the holder of any of the issuer's securities—equity or debt—regardless of whether the security held is of the same class as those subject to disgorgement as short-swing profits. *See* 15 U.S.C. § 78p(b); *Smolowe*, 136 F.2d at 241; 2 L. Loss, *Securities Regulation* at 1046. Further, the amount or value of a plaintiff's holdings or his motives for bringing suit are not relevant. *See Magida*, 231 F.2d at 847–48.

In keeping with the general rules of § 16(b) analysis, the question of whether a plaintiff has standing to bring suit is, in part, determined by whether the policy behind the statute is best served by allowing the claim. Thus, in *Blau v. Oppenheim*, 250 F.Supp. 881 (S.D.N.Y.1966) (Weinfeld, J.), the district court permitted a shareholder of a *parent corporation* to bring a § 16(b) suit on behalf of its issuer-subsidiary. There the company that issued the stock that was traded in contravention of the statute was dissolved in a merger. The court reasoned that where the issuer is merged out of existence, none of the original shareholders are left to bring suit. *Id.* at 886. A holding that would allow only the shareholders of the now defunct issuer to remedy the statutory violation would therefore make the statute unenforceable. *See id.* at 886–87; *see also Portnoy v. Kawecki Berylco Indus. Inc.*, 607 F.2d 765, 768 (7th Cir.1979). In order to avoid a result that was contrary to the purpose of the statute the court interpreted the word "issuer" to include the parent corporation. *Oppenheim*, 250 F.Supp. at 884.

Defendants urge that we limit *Oppenheim* to permit a shareholder of a parent corporation to maintain a § 16(b) suit with respect to the subsidiary's stock only when the original issuer did not survive a merger into the subsidiary. They contend that when the issuer survives the merger as a viable corporate entity enforcement of the statute by the issuer or by its shareholder, the parent corporation, is still available. We disagree with defendants' rationale; it would have been equally applicable to *Oppenheim* because there the § 16(b) claim could have been brought by the issuer's survivor or by its shareholder, the parent corporation, yet the court did not restrict standing to those entities. The plaintiff in *Oppenheim* actually had less claim to standing than the plaintiff in the instant case, because in *Oppenheim* the plaintiff never held shares in the original issuer, but purchased shares in the parent only after the merger. Further, we do not rely on the interpretation of "issuer" set forth in *Oppenheim*, but focus instead on whether a security holder loses his standing as an "owner" of securities when his stock is involuntarily converted in a merger.

The probability that the statute will not be enforced is present to the same degree when the original issuer survives the merger as a wholly-owned subsidiary of the parent corporation as it was in *Oppenheim*. In such circumstance no public shareholders remain to bring an action. As a practical matter it is unrealistic to believe that the issuing corporation will bring an action against itself or its insiders. *See Rothenberg*, [1977–78] Fed.Sec.L.Rep. ¶ 96,045 at 91,691; *cf. Lewis v. McAdam*, 762 F.2d 800, 802 (9th Cir.1985) (per curiam); *Magida*, 231 F.2d at 846. Leaving insiders to police themselves is not only contrary to § 16(b)'s private shareholder enforcement purpose, but also can be expected to secure the same results as those obtained when a fox guards a chicken coop. Concededly, some protection against insider abuse may still be available through a stockholder's derivative suit for breach of fiduciary duty. Yet such a suit is not as effective as a § 16(b) claim because shareholders are subject to the already noted more stringent standing requirements of Rule 23.1, and, in addition, the complaint may be countered with subjective considerations of intent or good faith, such as a business judgment defense. *Cf. Oppenheim*, 250 F.Supp. at 887.

Moreover, the SEC endorses the view that the policy of § 16(b) is best effectuated by allowing plaintiff to maintain this suit. *See* Ownership Reports and Trading By Officers, Directors and Principal Stockholders, Securities Exchange Act Rel.No. 26333 (Dec. 2, 1988), 42 SEC Docket 570, 53 Fed.Reg. 49997 (Dec. 13, 1988) [SEC Rel. No. 26333]. Although not binding on us, the SEC's insights in construing securities laws are entitled to consideration. *See Basic Inc. v. Levinson*, 485 U.S. 224, 239 n. 16, 108 S.Ct. 978, 987 n. 16, 99 L.Ed.2d 194

(1988); *TSC Indus., Inc. v. Northway, Inc.*, 426 U.S. 438, 449 n. 10, 96 S.Ct. 2126, 2132–33 n. 10, 48 L.Ed.2d 757 (1976).

Proposed SEC Rule 16a–1(h) would specifically define "owner" of a security as either a current beneficial owner of securities of the issuer at the time suit was filed *or* a former beneficial owner who was compelled to relinquish his holdings as a result of a business combination. *See* SEC Rel. No. 26333. While the proposed rule is inapplicable in the case at hand, *cf. Mayer v. Chesapeake Ins. Co.*, 877 F.2d 1154, 1162 (2d Cir.1989), *cert. denied*, — U.S. —, 110 S.Ct. 722, 107 L.Ed.2d 741 (1990), it reflects the strength of the SEC's convictions.

B. *Standing Not Barred by Existing Law*

Defendants and the dissenting opinion assert it is "settled law" that a security holder who commences a § 16(b) suit must remain a security holder throughout the litigation and if he ceases to own the securities he loses his standing to continue the action. *See Untermeyer v. Valhi, Inc.*, 665 F.Supp. 297 (S.D.N.Y.1987), *aff'd mem.*, 841 F.2d 1117 (2d Cir.), *aff'd on rehearing*, 841 F.2d 25 (2d Cir.) (per curiam), *cert. denied*, 488 U.S. 868, 109 S.Ct. 175, 102 L.Ed.2d 145 (1988); *Rothenberg*, [1977–78] Fed.Sec.L.Rep. (CCH) ¶ 96,045; *see also Lewis*, 762 F.2d 800; *Portnoy*, 607 F.2d 765; *Staffin v. Greenberg*, 509 F.Supp. 825, 840 (E.D.Pa.1981), *aff'd on other grounds*, 672 F.2d 1196 (3d Cir.1982). That conclusion is not mandated either by the statutory language or by the cited cases.

First, the language of the statute speaks of the "owner" of securities; but such language is not modified by the word "current" or any like limiting expression. The statute does not specifically bar the maintenance of § 16(b) suits by former shareholders and Congress, had it so desired, could readily have eliminated such individuals as plaintiffs. The broad meaning of the word owner better accords with the remedial purpose of the statute. Second, although some decisions have denied standing to a § 16(b) plaintiff on the grounds that he is not a current security holder, those cases are distinguishable. The district court, for example, relied upon *Untermeyer v. Valhi, Inc.*, which dealt with a plaintiff who owned stock of the parent corporation, but who never owned stock of the company that issued the shares traded in contravention of § 16(b). 665 F.Supp at 298. Thus, even without a merger the *Untermeyer* plaintiff would not have had standing. In contrast, plaintiff here brought a valid § 16(b) suit while he was a current shareholder of the issuer, and *but for* the merger standing would not be in issue here.

In *Rothenberg v. United Brands Co.*, also cited by the district court, the shareholders received cash in the merger instead of securities. The crucial factor considered by the trial court was that in a cashout merger the former shareholders maintain no continuing financial interest in the litigation. *See Rothenberg*, [1977–78] Fed. Sec.L.Rep. (CCH) ¶ 96,045 at 91,692. In the present case all former International shareholders obtained, as a result of the merger, shares of International's parent corporation, and plaintiff, as one of them, continues to have at least an indirect financial interest in the outcome of this lawsuit. Two additional reasons caution against an overbroad application of *Rothenberg*: That decision noted that even if plaintiff had standing the § 16(b) claim failed on the merits, *see id.* at 91,693–94; and the court's standing analysis was premised on an analogous application of Rule 23.1 which, as noted above, does not govern shareholders bringing § 16(b) claims. *Id.* at 91,691–92.

Contrary decisions of our sister circuits are similarly distinguishable. *See Lewis*, 762 F.2d at 801 (plaintiff shareholder of parent but never held stock in the issuer or its surviving subsidiary); *Portnoy*, 607 F.2d at 767–68 (cashout merger left plaintiff with no continuing financial interest in the litigation; plaintiff's alternative status as a shareholder in the grandparent corporation gave no standing for § 16(b) suit on behalf of the issuer). In the case at bar, the conversion of International stock into Viacom stock presents a novel situation where former shareholders have a continuing interest in maintaining suit in behalf of the issuer. We conclude, therefore, that under those unique circumstances the cases cited by defendants are neither controlling nor persuasive.

Here plaintiff's suit was timely, and while his § 16(b) suit was pending he was involuntarily divested of his share ownership in the issuer through a merger. But for that merger plaintiff's suit could not have been challenged on standing grounds. Although we decline—in keeping with § 16(b)'s objective analysis regarding defendants' intent—to inquire whether the merger was orchestrated for the express purpose of divesting plaintiff of standing, we cannot help but note that the incorporation of Viacom and the merger proposal occurred after plaintiff's § 16(b) claim was instituted. Hence, the danger of such intentional restructuring to defeat the enforcement mechanism incorporated in the statute is clearly present.

Quite plainly, a rule that allows insiders to avoid § 16(b) liability by divesting public shareholders of their cause of action through a business reorganization would undercut the function Congress planned to have shareholders play in policing such actions. *See Oppenheim*, 250 F.Supp. at 887; SEC Rel. No. 26333.

Permitting plaintiff to maintain this § 16(b) suit is not barred by the language of the statute or by existing case law, and it is fully consistent with the statutory objectives. The grant of summary judgment must therefore be reversed. If it is established that profits were realized in contravention of the statute they should be disgorged to International. The section is designed to protect fairness interests, not provide compensatory relief. The result we reach will adequately protect the former International shareholders who now own International indirectly as shareholders of Viacom. *Cf. American Standard, Inc. v. Crane Co.*, 510 F.2d 1043, 1060–61 (2d Cir.1974), *cert. denied*, 421 U.S. 1000, 95 S.Ct. 2397, 44 L.Ed.2d 667 (1975).

Because the plaintiff has standing under § 16(b), we do not reach the district court's rejection of plaintiff's standing argument based upon an alleged "double derivative" action. *See Mendell*, [1988–89] Fed.Sec.L. Rep. (CCH) ¶ 94,086 at 91,087.

III Plaintiff's Standing as a Noteholder Under Fed.R.Civ.P. 60(b)

In light of our reversal of the November 9, 1988 order and subsequent judgment of dismissal gives plaintiff his requested relief, plaintiff's appeal of the motion brought pursuant to Rule 60(b) is to some extent mooted. Nevertheless, we write to affirm the district court's denial of the Rule 60(b) motion in order to emphasize that plaintiff's purchase of a senior subordinated note of International did not provide grounds to vacate the district court's initial order.

[redacted] The relevant portions of Rule 60(b) provide that "upon such terms as are just, the court may relieve a party ... from a final judgment [or] order ... for the following reasons: (1) mistake, inadvertence, surprise, or excusable neglect; ... or (6) any other reason justifying relief from the operation of the judgment." Fed.R.Civ.P. 60(b). Motions under Rule 60(b) are addressed to the sound discretion of the district court and are generally granted only upon a showing of exceptional circumstances. *Nemaizer v. Baker*, 793 F.2d 58, 61 (2d Cir.1986).

[redacted] Plaintiff argues that he purchased the International note "as soon as it occurred to plaintiff's counsel (1) that any security holder of International could maintain a 16(b) action *and* (2) that notes of International were available to be purchased." We agree with the district court that counsel's ignorance of the law on this point cannot form the basis for relief under subdivision (1) of Rule 60(b). *See id.* at 62–63. Nor can we say that the district court abused its discretion when it denied relief under subdivision (6) of Rule 60(b). Plaintiff's acquisition of a note following an adverse ruling on his claim to standing as a shareholder did not present the kind of "extraordinary" circumstance that mandates relief to avoid an "extreme and undue hardship." *See Ackermann v. United States*, 340 U.S. 193, 199, 71 S.Ct. 209, 212, 95 L.Ed. 207 (1950); *Matarese v. LeFevre*, 801 F.2d 98, 106 (2d Cir.1986), *cert. denied*, 480 U.S. 908, 107 S.Ct. 1353, 94 L.Ed.2d 523 (1987).

As a noteholder of International, plaintiff clearly has standing to bring a § 16(b) claim in International's behalf. *See* 15 U.S.C. § 78p(b). Yet his newly acquired noteholder status does not afford grounds to vacate an order premised on his status as a former shareholder.

CONCLUSION

The district court's order entered May 24, 1989 is affirmed. Its order entered November 9, 1988 and the subsequent judgment of dismissal entered January 17, 1989 are reversed and the case is remanded to the district court for further proceedings consistent with this opinion.

MILTON POLLACK, Senior District Judge, dissenting:

The majority's ruling departs from the unequivocal terms of the statute to be administered and from the prior case law of this Court applying the statute, and it conflicts with rulings of the other Circuits which have addressed the requirements of the statute, § 16(b) of the Securities Exchange Act of 1934, 15 U.S.C. § 78p(b).

A corporate merger during the pendency of this suit has sparked the judicial controversy presented to this Court.

Plaintiff was the owner of stock issued by International (Viacom International Inc.) at the time he filed this suit. He seeks to recover short-swing profits of beneficial owners of more than 10% of the stock of International. During the pendency of the suit, the plaintiff ceased being an owner of International stock as the result of a corporate merger. The defendants then moved, successfully, to dismiss the complaint. That dismissal is on appeal to this Court.

International had been organized as a wholly-owned subsidiary of CBS Inc. for the purpose of owning the television program distribution and cable television businesses of CBS. The CBS interest in International was distributed to the CBS stockholders on a pro rata basis. Some time later, Arsenal Holdings Inc. ("Holdings") was organized for the purpose of acquiring International in a merger transaction which had a business purpose. A wholly-owned subsidiary of Holdings was merged with and into International, and, as a result of the merger, International remained a viable corporate entity but became an indirect, wholly-owned subsidiary of Holdings. Holdings changed its name to Viacom, Inc. ("Viacom"). Each share of Viacom stock, including plaintiff's stock, was converted into the right to receive (i) $43.20 and (ii) certain percentages of preferred and common stock of Viacom.[1] Plaintiff accepted the conversion and received cash and Arsenal Holdings (now called "Viacom") stock in the exchange.

Refined to simpler understanding of the implication of the corporate merger, it appears that the plaintiff ceased to be a shareholder of International; he had exchanged his holdings in the issuer, International, for cash and preferred and common stock of Arsenal Holdings Inc., which had become the 100% owner of International in the merger. Under the merger exchange the previously outstanding stock of International was cancelled, including plaintiff's shares. In this state of affairs, under the explicit language of § 16(b), the right to bring a § 16(b) suit on behalf of International, the issuer, was limited to either International, the original issuer, or Viacom, its new sole stockholder.

Thus the grounds of difference between the majority of the Court and this dissent are that the plaintiff no longer satisfies the plain statutory requirement—ownership of securities of the issuer.

Prior to the holding of the majority herein, it was axiomatic that an "owner of any

1. Excluded from the conversion were dissenting shares and shares held by Viacom, by International, or by a subsidiary of Viacom.

security of the issuer" must continue to be a stockholder of the issuer throughout a § 16(b) lawsuit. *See Herrmann v. Steinberg*, 812 F.2d 63, 67 n. 4 (2d Cir.1987) ("As a threshold matter ... plaintiffs must establish that they have been ... shareholders *throughout* this litigation."); *Rothenberg v. United Brands Co.*, [1977–78] Fed. Sec.L.Rep. (CCH) ¶ 96,045 at 91,691 (S.D. N.Y.) ("to continue to maintain a derivative action in the right of a corporation, plaintiff must have and *maintain his standing* throughout the litigation."), *aff'd mem.*, 573 F.2d 1295 (2d Cir.1977); *Staffin v. Greenberg*, 509 F.Supp. 825, 840 (E.D.Pa. 1981) ("the law requires that to maintain a derivative action under section 16(b) a plaintiff must have and *maintain his standing* as a shareholder at the commencement of the law suit and throughout the litigation."), *aff'd on other grounds*, 672 F.2d 1196 (3d Cir.1982) [Emphases supplied].

This Circuit as well as other circuits likewise have denied standing to sue to a § 16(b) plaintiff who has ceased his stock ownership in the issuer regardless of whether he voluntarily sold his interest or because he was cashed out in a merger transaction. *See Rothenberg v. United Brands Co.*, [1977–78] Fed.Sec.L.Rep. at 91,692 ("Here, we hold only that the requirement of § 16(b) that the plaintiff be the owner of any security of the issuer is not satisfied where plaintiff loses his security owner status [by a statutory short form merger] and thus any proprietary interest in the issuer during the pendency of the action."); *Portnoy v. Kawecki Berylco Indus.*, 607 F.2d 765, 767 (7th Cir.1979) ("When the plaintiff filed his § 16(b) action, he was an owner of a security of the issuer (KBI). However, he lost that status five days later [when he was cashed out in a merger], and consequently, we are of the opinion that he lost the standing that he had as an owner of KBI stock.").

Those holdings follow traditional rulings in other contexts. Once a plaintiff loses his status as the owner of stock in the issuer, the terminated ownership does not present a case or controversy for the exercise of judicial power; the claims by a terminated owner are not justiciable any longer. "The rule in federal cases is that an actual controversy must be extant at all stages ..., not merely at the time the complaint was filed." *Preiser v. Newkirk*, 422 U.S. 395, 401, 95 S.Ct. 2330, 2334, 45 L.Ed.2d 272 (1975). "[I]t is not enough that there may once have been a controversy at the time the suit was commenced if subsequent events have put an end to the controversy." *Prudent Publishing Co. v. Myron Mfg. Corp.*, 722 F.Supp. 17, 22 (S.D. N.Y.1989). For other cases that become moot in the course of litigation, see *Liner v. Jafco, Inc.*, 375 U.S. 301, 306 n. 3, 84 S.Ct. 391, 394 n. 3, 11 L.Ed.2d 347 (1964); *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 240–41, 57 S.Ct. 461, 463–64, 81 L.Ed. 617 (1936); *Stokes v. Village of Wurtsboro*, 818 F.2d 4 (2d Cir.1987).

The majority holding that a *former* security holder of the issuer who has been divested of his securities by a merger transaction during the pendency of a suit should continue to be qualified to sue is predicated on a perceived necessity to effectuate the statutory policy behind § 16(b). That policy has been described as "to protect the 'outside' stockholders against at least short-swing speculation by insiders with advance information." *Smolowe v. Delendo Corp.*, 136 F.2d 231, 235 (2d Cir.), *cert. denied*, 320 U.S. 751, 64 S.Ct. 56, 88 L.Ed. 446 (1943). This result has been urged on the Court by the SEC in its *amicus curiae* brief and would implement a rule, lately proposed by the SEC but never adopted, designed to invest a *former* stockholder with continued authority to sue. The proposed rule was floated by the SEC in 1988, revised in 1989, as a proposed definition of the term "owner." *See* Ownership Reports and Trading by Officers, Directors and Principal Shareholders, 53 Fed.Reg. 49997 at 50013 (Dec. 13, 1988) ("To preserve Congress' intent, the proposed rules would provide standing to the former public shareholders whose equity securities have been acquired in a business combination or similar corporate transaction over which the individual shareholder has no control."); Ownership Reports and Trading by Officers, Directors and Principal Security Holders, 54 Fed. Reg. 35667 at 35878 (Aug. 29, 1989) ("In response to comment received, the Commission reproposes a more limited definition. The revised proposed definition would extend standing only to former security holders who had filed suit before surrendering their securities.").[2]

The majority of this Court, as well as the SEC, point to the fact that plaintiff is now a shareholder of the parent corporation, Viacom, as further support for the plain extension of the scope of the statute, citing *Blau v. Oppenheim*, 250 F.Supp. 881, 884 (S.D.N.Y.1966). Reliance on *Blau*, however, is misplaced; it was factually, materially, different. In *Blau*, the issuer was merged out of existence, leading to the argument there made that if a successor was not permitted to sue under § 16(b) no other party would be available to vindicate the policy of the statute. 250 F.Supp. at 886. In the present case, however, ownership of the issuer passed to Viacom, and Viacom, as the sole shareholder of the issuer, remained in position, if need be, to vindicate the purpose of the statute to pursue recovery of short-swing profits of an insider.

The infirmity of *Blau* is highlighted by a careful study of the facts there presented; these were:

Oppenheim was a director of Van Winkle, a listed company, who engaged in short swing transactions and was thus subject to § 16(b) liability at the instance of security holders of Van Winkle. Plaintiff was not an owner of any security of Van Winkle at any time during its existence. Van Winkle was dissolved in its merger into M & T Chemicals, Inc., and all its assets were transferred to M & T in exchange for stock in American Can Co. Blau thereafter bought stock in American Can which, by then, owned 100% of the stock of M & T. Blau sued Oppenheim as a director of Van Winkle under § 16(b) purporting to act as the "owner of any security of the issuer." The District Judge sustained the claim of Blau, a stockholder of American Can, against Oppenheim for short-swing transactions in stock of Van Winkle on a theory that Van Winkle's assets were now in M & T. However, American Can was the stockholder of M & T, not Blau, but this was passed over by the District Judge. To effectuate the conceived purpose of § 16(b), only American Can should have been accorded status to sue, not Blau. The decision of the District Judge was never reviewed or analyzed by appeal. The public policy arguments pressed in *Blau* could only be made by ignoring the obligatory statutory requirement of stock ownership in the issuer. *Blau* granted standing to a non-owner, rather than to American Can itself, the sole holder of a security of the successor to Van Winkle.

Blau was mentioned by this Circuit and contrasted with *Untermeyer v. Valhi, Inc.*, 665 F.Supp. 297 (S.D.N.Y.1987), *aff'd mem.*, 841 F.2d 1117 (2d Cir.), *aff'd on reh'g*, 841 F.2d 25, 25 (2d Cir.) ("In *Blau* the issuer had been merged out of existence.... [and] the short swing-profits illegally gained would never have been recovered. In contrast, the issuer here, Sea-Land, survived the merger and remains a viable corporate entity. Because Sea-Land remains a viable corporate entity, it or its shareholder, CSX [the parent], can bring an action under section 16(b) to recover the short-swing profits allegedly gained.") (citations omitted), *cert. denied*, 488 U.S. 868,

2. Certainly, the proposed rules do not govern this case. *see Mayer v. Chesapeake Ins. Co.*, 877 F.2d 1154, 1162 (2d Cir.1989) ("[t]hough the Commission has recently proposed a new rule ... which would extend § 16(b) liability ...., thereby changing existing law. ... the proposed rule does not govern the present case."), *cert. denied*, — U.S. —, 110 S.Ct. 722, 107 L.Ed.2d 741 (1990), although the majority urges that they be given persuasive weight. *See Basic Inc. v. Levinson*, 485 U.S. 224, 239 n. 16, 108 S.Ct. 978, 987 n. 16, 99 L.Ed.2d 194 (1988) ("The SEC's insights [regarding the materiality standard under Rule 10b-5] are helpful, and we accord them due deference."). In *Piper v. Chris-Craft Indus., Inc.*, 430 U.S. 1, 41 n. 27, 97 S.Ct. 926, 949 n. 27, 51 L.Ed.2d 124 (1977), the Supreme Court observed, however, that "[the SEC's] presumed 'expertise' in the securities-law field is of limited value when the narrow legal issue is one peculiarly reserved for judicial resolution, namely whether a cause of action should be implied by judicial interpretation in favor of a particular class of litigants."

109 S.Ct. 175, 102 L.Ed.2d 145 (1988). That comment is directly apposite here.

Two other circuit courts which have addressed this issue have refused to extend the statutory qualification to former shareholders of the issuer either when the issuer remains a viable corporate entity, *see Portnoy*, 607 F.2d at 769 (7th Cir.1979), or when the issuer was merged out of existence. *See Lewis v. McAdam*, 762 F.2d 800, 804 (9th Cir.1985) (per curiam) ("We hold that where a corporation is merged out of existence by the wholly owned subsidiary of another corporation, the parent corporation is not an 'issuer' within the meaning of section 16(b). Similarly, a shareholder of the parent corporation cannot be considered an 'owner of any security of the issuer' and accordingly lacks standing to bring a section 16(b) action.").

The SEC itself recognizes that qualifying former shareholders to sue, either judicially or by rule-making, is a marked departure from the pre-existing jurisprudence under § 16(b). *See* 53 Fed.Reg. at 50013 ("Currently, the plaintiff is required to hold these shares [in the issuer] throughout the legal process.") (citing *Portnoy, supra*); *Id.* ("Where the issuer continues to exist as a wholly-owned subsidiary, . . . the courts have uniformly denied standing to former shareholders and shareholders of the parent.") (citing *Untermeyer, infra; Lewis, supra; Portnoy, supra*).

It is a frequently stated principle of statutory construction that when legislation expressly provides a particular remedy or remedies, courts should not expand the coverage of the statute to subsume other remedies. *See National Railroad Passenger Corp. v. National Assoc. of Railroad Passengers*, 414 U.S. 453, 458, 94 S.Ct. 690, 693, 38 L.Ed.2d 646 (1974). "When a statute limits a thing to be done in a particular mode, it includes the negative of any other mode." *Botany Mills v. United States*, 278 U.S. 282, 289, 49 S.Ct. 129, 131–32, 73 L.Ed. 379 (1929). In short, the remedies created in § 16(b) are the exclusive means to enforce the obligation imposed by the Act. *Nat'l Railroad Passenger Corp.*, 414 U.S. at 458, 94 S.Ct. at 693.

Congress simply has not delegated to the courts the authority to qualify a "former" owner as an "owner of any security of the issuer." While I agree with the statement in *Blau*, 250 F.Supp. at 864, that "[t]he courts, particularly in our circuit, have consistently interpreted section 16(b) in 'the broadest possible' terms in order not to defeat its avowed objective," the case authorities have also taught that: "We have no constitutional authority to rewrite a statute simply because we may determine that it is susceptible of improvement." *Lewis v. McAdam*, 762 F.2d 800, 804 (9th Cir.1985) (citing *Badaracco v. Commissioner*, 464 U.S. 386, 398, 104 S.Ct. 756, 764, 78 L.Ed.2d 549 (1984)); *see also, Badaracco*, 464 U.S. at 401, 104 S.Ct. at 764–65 ("If the result contended for by petitioner is to be the rule, Congress must make it so in clear and unmistakable language."); *TVA v. Hill*, 437 U.S. 153, 194, 98 S.Ct. 2279, 2302, 57 L.Ed.2d 117 (1978) ("Our individual appraisal of the wisdom of a particular course consciously selected by the Congress is to be put aside in the process of interpreting the statute."); *Blau v. Lehman*, 368 U.S. 403, 413, 82 S.Ct. 451, 457, 7 L.Ed.2d 403 (1962) ("Congress is the proper agency to change an interpretation of the [1934] Act unbroken since its passage, if the change is to be made."); *Untermeyer v. Valhi*, 665 F.Supp. 297, 300 (S.D.N.Y.1987) ("the statutory language may not be strained or distorted to add to the 'prophylactic' effect Congress itself clearly prescribed in § 16(b)"), *aff'd mem.*, 841 F.2d 1117 (2d Cir.), *aff'd on reh'g*, 841 F.2d 25 (2d Cir.), *cert. denied*, 488 U.S. 868, 109 S.Ct. 175, 102 L.Ed.2d 145 (1988).

The statute unambiguously states that "the owner of any security of the issuer" may sue to recover short-swing profits that are recoverable by the issuer under § 16(b). There is simply no indication in any of the legislative history of § 16(b) that the plain meaning of the words "owner of any security of the issuer" was meant to include or even could include one who is no longer the owner of any security of the issuer. Nor is there anything in the legislative history from which to believe "that the plain meaning of the statutory language is inadequate to effect the congressional purpose of providing an enforcement mechanism against insider trading. That a merger may result in a corporation succeeding to an action formerly held by an individual is a consequence dictated by the statute." *Lewis,* 762 F.2d at 804. Certainly, Congress has had ample opportunity to amend § 16(b) had it so desired.[3]

Further, the narrow private cause of action granted by § 16(b) militates strongly against our attributing to Congress a willingness to allow a more expansive enforcement of the statute. The remedy encompasses not former stockholders of the issuer but only stockholders. As did the Seventh Circuit, we should "reject the plaintiff's invitation to draft 'judicial legislation' to grant him standing." *Portnoy,* 607 F.2d at 768.

Accordingly, I would affirm the order and judgment appealed from.

Edward BELADE, William Cochran, Monica Denman, Harriet Dokla, Charles Griebell, Joy Lalacone, Eleanor McGovern, Geraldine Privee, Frank Yates and David Zeller, on behalf of themselves and all others similarly situated, Plaintiffs-Appellants,

v.

ITT CORPORATION, Defendant-Appellee.

No. 704, Docket 89-7924.

United States Court of Appeals, Second Circuit.

Argued Jan. 17, 1990.

Decided July 25, 1990.

Employees brought action charging employer with violating its fiduciary duties by denying group participation in enhanced retirement program. The United States District Court for the District of Connecticut, Warren W. Eginton, J., granted partial summary judgment for employer and dismissed action with prejudice. Appeal and cross appeal were taken. The Court of Appeals held that an employer's decision to exclude certain employees from design of early retirement program did not implicate employer's fiduciary duties under ERISA.

Affirmed.

1. Pensions ⇐122

Employer's decision to exclude certain employees from design of early retirement program did not implicate employer's fiduciary duties under ERISA; design of program was purely corporate management decision. Employee Retirement Income Security Act of 1974, §§ 2-4402, 29 U.S.C.A. §§ 1001-1461.

2. Pensions ⇐43

Under ERISA, employers assume fiduciary status only when and to extent that they function in their capacity as plan administrator and not when they conduct business that is not regulated by ERISA. Employee Retirement Income Security Act of 1974, § 502(a)(1)(B), 29 U.S.C.A. § 1132(a)(1)(B).

Joseph D. Garrison (Garrison, Kahn, Silbert & Arterton, New Haven, Conn., of counsel), for plaintiffs-appellants.

William L. Kandel (Russell G. Tisman, McDermott, Will & Emery, New York City, of counsel), for defendant-appellee.

Before FEINBERG, PRATT and MAHONEY, Circuit Judges.

3. Several times in the past decade or so Congress has legislated amendments to the 1934 Act. *See e.g.,* Insider Trading and Securities Fraud Enforcement Act of 1988, Pub.L. No. 100-704, 102 Stat. 4677 (1988); Shareholder Communications Act of 1985, Pub.L. No. 99-222, 99 Stat. 1737 (1985); Insider Trading Sanctions Act of 1984, Pub.L. No. 98-376, 98 Stat. 1264 (1984); Foreign Corrupt Practices Act of 1977, Pub.L. No. 95-213, 91 Stat. 1494 (1977); Domestic & Foreign Investment Improved Disclosure Act of 1977, Pub.L. No. 95-213, 91 Stat. 1498 (1977).

Mendell V. Gollust, 909 F.2D 724 (2d Cir. 1990), Hyperlaw No. 578, Lexis No. ___,

Affirmed sub nom. Gollust . V. Mendell , ___ U.S. ___ (June 10, 1991), Hyperlaw SC90122

United States Circuit Court of Appeals
For The Second Circuit

Ira L. MENDELL, in Behalf of VIACOM, INC. and, alternatively, Viacom International, Inc., Plaintiffs-Appellants,

v.

Keith R. GOLLUST, Paul E. Tierney, Jr., Augustus K. Oliver, Gollust Tierney and Oliver, Gollust & Tierney, Inc., Coniston Partners, Coniston Institutional Investors, Baker Street Partners, WJB Associates, Helston Investment, Inc., Viacom Inc., and Viacom International, Inc., Defendants-Appellees.

Argued November 21, 1989 Decided July 25, 1990

Docket Nos. 89-7968, 89-7686

Affirmed in Part, Reversed in Part.

Before OAKES, Chief Judge, CARDAMONE, Circuit Judge, and POLLACK, District Judge.*

Opinion by Cardamone, Circuit Judge
Separate Dissent by District Judge Pollack, J.

Irving Malchman (Kaufman Malchman Kaufmann & Kirby, New York City, of counsel), for plaintiffs-appellants.

Edwin B. Mishkin (James W. Pharo, Michael S. Sommer, Cleary, Gottlieb, Steen & Hamilton, New York City, of counsel), for defendants-appellees other than nominal parties Viacom Inc., and Viacom Intern., Inc.

S.E.C. (Daniel L. Goelzer, Gen. Counsel, Jacob H. Stillman, Associate Gen. Counsel, Thomas L. Riesenberg, Asst. Gen. Counsel, Leslie E. Smith, Atty., and Paul Gonson, Sol., Washington, D.C., of counsel), filed a brief for the S.E.C., amicus curiae.

CARDAMONE, Circuit Judge:

This appeal deals with a suit brought to recover short-swing profits against insiders which was dismissed in the district court. It is clear from Supreme Court precedent that liability for short-swing trading will not arise unless the securities transactions at issue fall within the literal language of the statute that prohibits over-reaching by insiders. Here plaintiff's standing to bring suit against insiders, rather than such individuals' liability, is the question presented. In resolving this issue the words of the statute must still be carefully examined, but legislative purpose may also be considered where standing is not clearly precluded by the statutory language. Congressional policy is a stubborn thing; it permeates this area of the law. In resolving this case therefore we must not defeat Congress' plain policy by viewing standing too narrowly.

BACKGROUND

Before us is an order of the Southern District of New York (Mukasey, J.), entered November 9, 1988 that granted summary judgment to defendants dismissing plaintiff's complaint for lack of standing. Plaintiff also appeals from an order dated May 23, 1989 denying his Rule 60(b) motion for relief from the November 9, 1988 order. Plaintiff appeals that dismissal of his action brought pursuant to § 16(b) of the Securities Exchange Act of 1934, 15 U.S.C. § 78p(b) (1988). Section 16(b) provides that an owner of an issurer's security may bring an action in behalf of the issuer to recover short-swing profits realized by the corporation's officers, directors and principal stockholders. A "short-swing" profit occurs when a profit is realized on a purchase and sale, or sale and purchase, of stock occurring within a period of six months. The statute requires officers, directors and owners of more than ten percent of the issuer's stock (insiders) to disgorge short-swing profits back to the issuer.

The question presented is whether a shareholder whose shares in an issuer are converted by a business restructuring into shares of a newly formed parent corporation that owns all of the stock of the issuer loses standing to maintain a previously instituted § 16(b) suit. Because we think the answer to the question posed is "no," the grant of summary judgment dismissing plaintiff's suit must be reversed.

FACTS

Plaintiff Ira L. Mendell is a former shareholder of Viacom International Inc. (International). Defendants are limited partnerships, general partnerships, individual partners and certain corporations (Coniston or the Coniston defendants) that together invested in the stock of International. In 1986 defendants collectively owned more than ten percent of its stock. In January 1987 plaintiff filed a complaint alleging that Coniston was liable to International pursuant to § 16(b) for profits arising out of Coniston's purchases and sales of International stock in 1986. Plaintiff asserted that on trades of International stock made between July and October 1986 the Coniston defendants acquired approximately 11 million dollars in short-swing profits at a time when they were insiders by virtue of their ownership of more than ten percent of International stock. The complaint also alleged that in October 1986 a demand was made upon International and its Board of Directors to institute a § 16(b) suit against the Coniston defendants, but that though more than 60 days had passed no suit had been commenced by International.

Approximately six months later, in June 1987, after plaintiff had filed suit, International was acquired through a merger transaction by Arsenal Acquiring Corporation, a shell corporation formed for that purpose. All of International's stock was exchanged for a combination of cash and stock in Arsenal Acquiring's parent corporation called Arsenal Holdings, Inc., and Arsenal Acquiring then merged into International, which thereby became a wholly-owned subsidiary of the parent, Arsenal Holdings. As part of the merger, Arsenal Holdings changed its name to Viacom, Inc. (Viacom). Thus plaintiff, who held shares in International when he brought suit to recover insider profits for the issuer, now holds shares in its parent, Viacom. Viacom is the sole shareholder of International, and International is the parent corporation's sole asset.

At a pretrial conference held in February 1988 defendants asserted that plaintiff no longer had standing to maintain his § 16(b) suit since he was no longer a shareholder of International. In March 1988 plaintiff served an amended complaint asserting that he had standing to bring the action in behalf of Viacom, the parent corporation, which he claimed was effectively the "issuer." Alternatively, he contended that he had standing to bring the action as a double-derivative action in behalf of International. Coniston moved for summary judgment. On November 9, 1988 the district court granted summary judgment to defen-

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dants because plaintiff lacked standing, ruling that "[s]uits to disgorge ill-gotten gains under § 16(b) may be prosecuted only by the issuer itself or the holders of its securities." *Mendell v. Gollust*, [1988–89] Fed.Sec.L.Rep. (CCH) ¶ 94,086 at 91,086, 1988 WL 123703 (S.D.N.Y.1988).

On January 9, 1989—after the opinion issued but before the judgment of dismissal was entered on January 17, 1989—plaintiff purchased a subordinated note issued by International. In March 1989 plaintiff made a motion pursuant to Fed.R.Civ.P. 60(b) asserting that he now had standing as a noteholder of International, and that the judgment entered some weeks earlier should be vacated. In an opinion dated May 23, 1989 the district court denied the Rule 60(b) motion stating that counsel's failure to advise his client to purchase the note earlier did not provide grounds to overturn the judgment. *See Mendell v. Gollust*, [Current Volume] Fed.Sec.L.Rep. (CCH) ¶ 94,477, 1989 WL 56252 (S.D.N.Y. 1989).

We heard oral argument on November 21, 1989, and on November 28 requested the Securities and Exchange Commission (SEC) to submit an *amicus curiae* brief setting forth its views on plaintiff's standing under § 16(b). We now have the benefit of the SEC's *amicus curiae* brief filed on January 10, 1990.

DISCUSSION

I Section 16(b)

A. *Policy Considerations and Legislative Purpose*

In order to determine how broadly § 16(b)'s standing requirements should be construed, we begin with a brief examination of the policy considerations and the legislative purpose that preceded the enactment of the statute. The Securities Act of 1934 in general and § 16(b) in particular were passed to insure the integrity of the securities markets and to protect the investing public. *See* 15 U.S.C. § 78p(b) (1988); Federal Securities Exchange Act of 1934, S.Rep.No. 792, 73d Cong., 2d Sess. 9

(1934) [*Senate Report*]; 2 L. Loss, *Securities Regulation* 1037–38, 1040–41 (2d ed. 1961).

The Committee on Banking and Currency heard many instances where insiders either personally or through the medium of holding companies made large profits from the use of information not available to the public. *Senate Report* at 9. It concluded that the reporting requirements regarding changes in insider holdings and the provision making profits recoverable on sales or purchases made within six months would render difficult or impossible trading on advance information by insiders for profit. *Id.* The bill's provisions were for the express purpose of preventing the unfair use of inside information. *Id.* at 21.

> Among the most vicious practices unearthed at the hearings before the subcommittee was the flagrant betrayal of their fiduciary duties by directors and officers of corporations who used their positions of trust and the confidential information which came to them in such positions, to aid them in their market activities.

Stock Exchange Practices, Report of the Committee on Banking and Currency, S.Rep.No. 1455, 73d Cong., 2d Sess. 55 (1934). Hence, Congress envisioned § 16(b) as a remedial law that would deter those "intrusted with the administration of corporate affairs or vested with substantial control over corporations [from using] inside information for their own advantage." *Id.* at 68.

B. *Judicial Construction of § 16(b)*

Since its passage the Supreme Court has construed § 16(b) in a number of cases. In the earliest, *Blau v. Lehman*, 368 U.S. 403, 82 S.Ct. 451, 7 L.Ed.2d 403 (1962), it refused to hold an entire partnership liable for short-swing profits as an insider when one of its members was a director of the issuer because the plain language of § 16(b) did not provide for partnership liability, though the director was susceptible to suit in his individual capacity for the profits he realized. *Id.* at 411–14, 82 S.Ct. at 455–57. In *Kern County Land Co. v. Occidental Petroleum Corp.*, 411 U.S. 582, 93 S.Ct. 1736, 36 L.Ed.2d 503 (1973), a tender-offeror that purchased more than ten percent of the stock of Kern County Land Co. had its shares of Kern converted into new Tenneco stock when Tenneco merged with Kern in a defensive transaction. The tender-offeror negotiated a contract to sell to Tenneco the shares it would receive after the merger. Writing that traditional cash-for-stock purchases fall within § 16(b), but that certain "unorthodox" transactions are not so easy to resolve, the Court observed that these "borderline" transactions are within the statute's reach if they are a vehicle promoting the evil Congress sought to prevent. *Id.* at 593–94, 93 S.Ct. at 1744. The Court noted that the transaction in question was not based on a statutory insider's information and therefore was not vulnerable to the speculative abuse barred by § 16(b), and held that neither the exchange of shares in the merger nor the execution of the option contract constituted a "sale" under § 16(b). *See id.* at 600–01, 93 S.Ct. at 1747–48.

In *Reliance Electric Co. v. Emerson Electric Co.*, 404 U.S. 418, 92 S.Ct. 596, 30 L.Ed.2d 575 (1972), Emerson Electric, a holder of more than ten percent of Dodge Manufacturing Co., made two sales of stock within six months after purchasing it, the first of which reduced its holdings to less than ten percent. The question was whether the profits from the second sale, made within six months of its purchase but not while Emerson was a ten percent holder, were recoverable by the corporation under § 16(b). In holding that they were not, the Supreme Court observed that a ten percent owner must under the statute be such " 'both at the time of the purchase and sale . . . of the security involved,' " 15 U.S.C. § 78p(b), and since Emerson Electric was not such an owner at the time of the second sale, the method it had used to avoid liability was one permitted by the statute. 404 U.S. at 422–23, 92 S.Ct. at 599–600. The Court reasoned that, because liability under the statute is predicated upon objective proof, a trader's intent and/or motive is irrelevant and hence, Emerson Electric was not liable under § 16(b).

Id. at 425, 92 S.Ct. at 600. In *Reliance* the statutory language was clear; only where differing constructions of § 16(b)'s terms are possible may a court interpret the statute in a way that serves Congress' purpose. *Id.* at 424, 92 S.Ct. at 600. Here, we are faced with the latter scenario.

C. *Broad Interpretation of § 16(b)*

When the statute permits interpretation the section traditionally has been read broadly in view of its remedial purposes. The disgorgement provision is aimed at deterring insider trading by removing the profits from "a class of transactions in which the possibility of abuse [is] believed to be intolerably great." *Id.* at 422, 92 S.Ct. at 599. The statute presumes that insiders in a company have access to nonpublic information regarding its operation and will use that information when trading in the issuer's stock, and thus proof of the actual use of such inside information is not required. *See Foremost-McKesson, Inc. v. Provident Sec. Co.*, 423 U.S. 232, 243, 251, 96 S.Ct. 508, 519, 46 L.Ed.2d 464 (1976); *Reliance Elec.*, 404 U.S. at 422, 92 S.Ct. at 599; *Smolowe v. Delendo Corp.*, 136 F.2d 231, 235–36 (2d Cir.), *cert. denied*, 320 U.S. 751, 64 S.Ct. 56, 88 L.Ed. 446 (1943).

We and most other courts have adopted a "pragmatic" approach, construing § 16(b) in a manner that seems most consistent with Congress' purpose. *See Kern County Land Co.*, 411 U.S. at 594, 93 S.Ct. at 1744 ("the courts have come to inquire whether the transaction may serve as a vehicle for the evil which Congress sought to prevent"); *Reliance Elec.*, 404 U.S. at 424, 92 S.Ct. at 600 ("where alternative constructions of the terms of § 16(b) are possible, those terms are to be given the construction that best serves the congressional purpose of curbing short-swing speculation by corporate insiders."); *Feder v. Martin Marietta Corp.*, 406 F.2d 260, 262 (2d Cir.1969) (courts interpret § 16(b) in ways most consistent with legislative purpose "even departing where necessary from the literal statutory language."), *cert. denied*, 396 U.S. 1036, 90 S.Ct. 678, 24 L.Ed.2d 681 (1970).

II Standing Under § 16(b)

A. *Broadly Construed*

To effectuate its purposes the statute permits "the owner of any security of the issuer" to bring suit in behalf of the corporation. 15 U.S.C. § 78p(b). Such person may institute a § 16(b) claim on behalf of the issuer if the latter fails to bring suit after the stockholder so requests. *See id.* Because such a suit is not brought in his own, but rather the corporation's behalf, § 16(b)'s standing requirements have been given wide latitude. *See Pellegrino v. Nesbit,* 203 F.2d 463, 466 (9th Cir.1953); *see also Prager v. Sylvestri,* 449 F.Supp. 425, 429 (S.D.N.Y.1978) (demand requirement of § 16(b) exists for benefit of the issuer; defendant insider may not assert lack of demand as a defense.). A § 16(b) plaintiff performs a public rather than a private function and is seen as an instrument for advancing legislative policy. *See Magida v. Continental Can Co.,* 231 F.2d 843, 846–47 (2d Cir.), *cert. denied,* 351 U.S. 972, 76 S.Ct. 1031, 100 L.Ed. 1490 (1956).

The standing requirements for shareholder derivative suits are not applicable to a § 16(b) plaintiff. *See Blau v. Mission Corp.,* 212 F.2d 77, 79 (2d Cir.), *cert. denied,* 347 U.S. 1016, 74 S.Ct. 872, 98 L.Ed. 1138 (1954); *Rothenberg v. United Brands Co.,* [1977–78] Fed.Sec.L.Rep. (CCH) ¶ 96,045 at 91,691–92, 1977 WL 1014 (S.D.N.Y.); *aff'd mem.,* 573 F.2d 1295 (2d Cir.1977); 2 L. Loss, *Securities Regulation* at 1045–47. Generally a derivative plaintiff must be a shareholder at the time of the transaction of which he complains, the action must not be a collusive one to confer federal jurisdiction, and the complaint must allege with particularity the efforts made to obtain the desired action. *See* Fed.R.Civ.P. 23.1. In contrast, in a § 16(b) suit the complaining stockholder need not have held his securities at the time of the objectionable transaction. *See Blau v. Mission Corp.,* 212 F.2d at 79. Suit may be brought by the holder of any of the issuer's securities—equity or debt—regardless of whether the security held is of the same class as those subject to disgorgement as standing than the plaintiff in the instant case, because in *Oppenheim* the plaintiff never held shares in the original issuer, but purchased shares in the parent only after the merger. Further, we do not rely on the interpretation of "issuer" set forth in *Oppenheim*, but focus instead on whether a security holder loses his standing as an "owner" of securities when his stock is involuntarily converted in a merger.

The probability that the statute will not be enforced is present to the same degree when the original issuer survives the merger as a wholly-owned subsidiary of the parent corporation as it was in *Oppenheim*. In such circumstance no public shareholders remain to bring an action. As a practical matter it is unrealistic to believe that the issuing corporation will bring an action against itself or its insiders. *See Rothenberg*, [1977-78] Fed.Sec.L.Rep. ¶ 96,045 at 91,691; *cf. Lewis v. McAdam*, 762 F.2d 800, 802 (9th Cir.1985) (per curiam); *Magida*, 231 F.2d at 846. Leaving insiders to police themselves is not only contrary to § 16(b)'s private shareholder enforcement purpose, but also can be expected to secure the same results as those obtained when a fox guards a chicken coop. Concededly, some protection against insider abuse may still be available through a stockholder's derivative suit for breach of fiduciary duty. Yet such a suit is not as effective as a § 16(b) claim because shareholders are subject to the already noted more stringent standing requirements of Rule 23.1, and, in addition, the complaint may be countered with subjective considerations of intent or good faith, such as a business judgment defense. *Cf. Oppenheim*, 250 F.Supp. at 887.

Moreover, the SEC endorses the view that the policy of § 16(b) is best effectuated by allowing plaintiff to maintain this suit. *See* Ownership Reports and Trading By Officers, Directors and Principal Stockholders, Securities Exchange Act Rel.No. 26333 (Dec. 2, 1988), 42 SEC Docket 570, 53 Fed.Reg. 49997 (Dec. 13, 1988) [SEC Rel. No. 26333]. Although not binding on us, the SEC's insights in construing securities laws are entitled to consideration. *See Basic Inc. v. Levinson*, 485 U.S. 224, 239 n. 16, 108 S.Ct. 978, 987 n. 16, 99 L.Ed.2d 194

(1988); *TSC Indus., Inc. v. Northway, Inc.*, 426 U.S. 438, 449 n. 10, 96 S.Ct. 2126, 2132-33 n. 10, 48 L.Ed.2d 757 (1976).

Proposed SEC Rule 16a-1(h) would specifically define "owner" of a security as either a current beneficial owner of securities of the issuer at the time suit was filed *or* a former beneficial owner who was compelled to relinquish his holdings as a result of a business combination. *See* SEC Rel. No. 26333. While the proposed rule is inapplicable in the case at hand, *cf. Mayer v. Chesapeake Ins. Co.*, 877 F.2d 1154, 1162 (2d Cir.1989), *cert. denied*, — U.S. —, 110 S.Ct. 722, 107 L.Ed.2d 741 (1990), it reflects the strength of the SEC's convictions.

B. *Standing Not Barred by Existing Law*

Defendants and the dissenting opinion assert it is "settled law" that a security holder who commences a § 16(b) suit must remain a security holder throughout the litigation and if he ceases to own the securities he loses his standing to continue the action. *See Untermeyer v. Valhi, Inc.*, 665 F.Supp. 297 (S.D.N.Y.1987), *aff'd mem.*, 841 F.2d 1117 (2d Cir.), *aff'd on rehearing*, 841 F.2d 25 (2d Cir.) (per curiam), *cert. denied*, 488 U.S. 868, 109 S.Ct. 175, 102 L.Ed.2d 145 (1988); *Rothenberg*, [1977-78] Fed.Sec.L.Rep. (CCH) ¶ 96,045; *see also Lewis*, 762 F.2d 800; *Portnoy*, 607 F.2d 765; *Staffin v. Greenberg*, 509 F.Supp. 825, 840 (E.D.Pa.1981), *aff'd on other grounds*, 672 F.2d 1196 (3d Cir.1982). That conclusion is not mandated either by the statutory language or by the cited cases.

First, the language of the statute speaks of the "owner" of securities; but such language is not modified by the word "current" or any like limiting expression. The statute does not specifically bar the maintenance of § 16(b) suits by former shareholders and Congress, had it so desired, could readily have eliminated such individuals as plaintiffs. The broad meaning of the word owner better accords with the remedial purpose of the statute. Second, although some decisions have denied standing to a

§ 16(b) plaintiff on the grounds that he is not a current security holder, those cases are distinguishable. The district court, for example, relied upon *Untermeyer v. Valhi, Inc.*, which dealt with a plaintiff who owned stock of the parent corporation, but who never owned stock of the company that issued the shares traded in contravention of § 16(b). 665 F.Supp at 298. Thus, even without a merger the *Untermeyer* plaintiff would not have had standing. In contrast, plaintiff here brought a valid § 16(b) suit while he was a current shareholder of the issuer, and *but for* the merger standing would not be in issue here.

In *Rothenberg v. United Brands Co.*, also cited by the district court, the shareholders received cash in the merger instead of securities. The crucial factor considered by the trial court was that in a cashout merger the former shareholders maintain no continuing financial interest in the litigation. *See Rothenberg*, [1977-78] Fed. Sec.L.Rep. (CCH) ¶ 96,045 at 91,692. In the present case all former International shareholders obtained, as a result of the merger, shares of International's parent corporation, and plaintiff, as one of them, continues to have at least an indirect financial interest in the outcome of this lawsuit. Two additional reasons caution against an overbroad application of *Rothenberg*: That decision noted that even if plaintiff had standing the § 16(b) claim failed on the merits, *see id.* at 91,693–94; and the court's standing analysis was premised on an analogous application of Rule 23.1 which, as noted above, does not govern shareholders bringing § 16(b) claims. *Id.* at 91,691–92.

Contrary decisions of our sister circuits are similarly distinguishable. *See Lewis*, 762 F.2d at 801 (plaintiff shareholder of parent but never held stock in the issuer or its surviving subsidiary); *Portnoy*, 607 F.2d at 767–68 (cashout merger left plaintiff with no continuing financial interest in the litigation, plaintiff's alternative status as a shareholder in the grandparent corporation gave no standing for § 16(b) suit on behalf of the issuer). In the case at bar, the conversion of International stock into Viacom stock presents a novel situation where former shareholders have a continuing interest in maintaining suit in behalf of the issuer. We conclude, therefore, that under those unique circumstances the cases cited by defendants are neither controlling nor persuasive.

Here plaintiff's suit was timely, and while his § 16(b) suit was pending he was involuntarily divested of his share ownership in the issuer through a merger. But for that merger plaintiff's suit could not have been challenged on standing grounds. Although we decline—in keeping with § 16(b)'s objective analysis regarding defendants' intent—to inquire whether the merger was orchestrated for the express purpose of divesting plaintiff of standing, we cannot help but note that the incorporation of Viacom and the merger proposal occurred after plaintiff's § 16(b) claim was instituted. Hence, the danger of such intentional restructuring to defeat the enforcement mechanism incorporated in the statute is clearly present.

Quite plainly, a rule that allows insiders to avoid § 16(b) liability by divesting public shareholders of their cause of action through a business reorganization would undercut the function Congress planned to have shareholders play in policing such actions. *See Oppenheim*, 250 F.Supp. at 887; SEC Rel. No. 26333.

Permitting plaintiff to maintain this § 16(b) suit is not barred by the language of the statute or by existing case law, and it is fully consistent with the statutory objectives. The grant of summary judgment must therefore be reversed. If it is established that profits were realized in contravention of the statute they should be disgorged to International. The section is designed to protect fairness interests, not provide compensatory relief. The result we reach will adequately protect the former International shareholders who now own International indirectly as shareholders of Viacom. *Cf. American Standard, Inc. v. Crane Co.*, 510 F.2d 1043, 1060–61 (2d Cir.1974), *cert. denied*, 421 U.S. 1000, 95 S.Ct. 2397, 44 L.Ed.2d 667 (1975).

Because the plaintiff has standing under § 16(b), we do not reach the district court's rejection of plaintiff's standing argument based upon an alleged "double derivative" action. *See Mendell*, [1988–89] Fed.Sec.L. Rep. (CCH) ¶ 94,066 at 91,087.

III Plaintiff's Standing as a Noteholder Under Fed.R.Civ.P. 60(b)

In light of our reversal of the November 9, 1988 order and subsequent judgment of dismissal gives plaintiff his requested relief, plaintiff's appeal of the motion brought pursuant to Rule 60(b) is to some extent mooted. Nevertheless, we write to affirm the district court's denial of the Rule 60(b) motion in order to emphasize that plaintiff's purchase of a senior subordinated note of International did not provide grounds to vacate the district court's initial order.

The relevant portions of Rule 60(b) provide that "upon such terms as are just, the court may relieve a party ... from a final judgment [or] order ... for the following reasons: (1) mistake, inadvertence, surprise, or excusable neglect; ... or (6) any other reason justifying relief from the operation of the judgment." Fed.R.Civ.P. 60(b). Motions under Rule 60(b) are addressed to the sound discretion of the district court and are generally granted only upon a showing of exceptional circumstances. *Nemaizer v. Baker*, 793 F.2d 58, 61 (2d Cir.1986).

Plaintiff argues that he purchased the International note "as soon as it occurred to plaintiff's counsel (1) that any security holder of International could maintain a 16(b) action *and* (2) that notes of International were available to be purchased." We agree with the district court that counsel's ignorance of the law on this point cannot form the basis for relief under subdivision (1) of Rule 60(b). *See id.* at 62–63. Nor can we say that the district court abused its discretion when it denied relief under subdivision (6) of Rule 60(b). Plaintiff's acquisition of a note following an adverse ruling on his claim to standing as a shareholder did not present the kind of "extraordinary" circumstance that mandates relief to avoid an "extreme and undue hardship." *See Ackermann v. United States*, 340 U.S. 193, 199, 71 S.Ct. 209, 212, 95 L.Ed. 207 (1950); *Matarese v. LeFevre*, 801 F.2d 98, 106 (2d Cir.1986), *cert. denied*, 480 U.S. 908, 107 S.Ct. 1353, 94 L.Ed.2d 523 (1987).

As a noteholder of International, plaintiff clearly has standing to bring a § 16(b) claim in International's behalf. *See* 15 U.S.C. § 78p(b). Yet his newly acquired noteholder status does not afford grounds to vacate an order premised on his status as a former shareholder.

CONCLUSION

The district court's order entered May 24, 1989 is affirmed. Its order entered November 9, 1988 and the subsequent judgment of dismissal entered January 17, 1989 are reversed and the case is remanded to the district court for further proceedings consistent with this opinion.

MILTON POLLACK, Senior District Judge, dissenting:

The majority's ruling departs from the unequivocal terms of the statute to be administered and from the prior case law of this Court applying the statute, and it conflicts with rulings of the other Circuits which have addressed the requirements of the statute, § 16(b) of the Securities Exchange Act of 1934, 15 U.S.C. § 78p(b).

A corporate merger during the pendency of this suit has sparked the judicial controversy presented to this Court.

Plaintiff was the owner of stock issued by International (Viacom International Inc.) at the time he filed this suit. He seeks to recover short-swing profits of beneficial owners of more than 10% of the stock of International. During the pendency of the suit, the plaintiff ceased being an owner of International stock as the result of a corporate merger. The defendants then moved, successfully, to dismiss the complaint. That dismissal is on appeal to this Court.

International had been organized as a wholly-owned subsidiary of CBS Inc. for the purpose of owning the television program distribution and cable television businesses of CBS. The CBS interest in International was distributed to the CBS stockholders on a pro rata basis. Some time later, Arsenal Holdings Inc. ("Holdings") was organized for the purpose of acquiring International in a merger transaction which had a business purpose. A wholly-owned subsidiary of Holdings was merged with and into International, and, as a result of the merger, International remained a viable corporate entity but became an indirect, wholly-owned subsidiary of Holdings. Holdings changed its name to Viacom, Inc. ("Viacom"). Each share of Viacom stock, including plaintiff's stock, was converted into the right to receive (i) $43.20 and (ii) certain percentages of preferred and common stock of Viacom.[1] Plaintiff accepted the conversion and received cash and Arsenal Holdings (now called "Viacom") stock in the exchange.

Refined to simpler understanding of the implication of the corporate merger, it appears that the plaintiff ceased to be a shareholder of International; he had exchanged his holdings in the issuer, International, for cash and preferred and common stock of Arsenal Holdings Inc., which had become the 100% owner of International in the merger. Under the merger exchange the previously outstanding stock of International was cancelled, including plaintiff's shares. In this state of affairs, under the explicit language of § 16(b), the right to bring a § 16(b) suit on behalf of International, the issuer, was limited to either International, the original issuer, or Viacom, its new sole stockholder.

Thus the grounds of difference between the majority of the Court and this dissent are that the plaintiff no longer satisfies the plain statutory requirement—ownership of securities of the issuer.

Prior to the holding of the majority herein, it was axiomatic that an "owner of any ports and Trading by Officers, Directors and Principal Security Holders, 54 Fed. Reg. 35667 at 35678 (Aug. 29, 1989) ("In response to comment received, the Commission reproposes a more limited definition. The revised proposed definition would extend standing only to former security holders who had filed suit before surrendering their securities.").[2]

The majority of this Court, as well as the SEC, point to the fact that plaintiff is now a shareholder of the parent corporation, Viacom, as further support for the plain extension of the scope of the statute, citing *Blau v. Oppenheim*, 250 F.Supp. 881, 884 (S.D.N.Y.1966). Reliance on *Blau*, however, is misplaced; it was factually, materially, different. In *Blau*, the issuer was merged out of existence, leading to the argument there made that if a successor was not permitted to sue under § 16(b) no other party would be available to vindicate the policy of the statute. 250 F.Supp. at 886. In the present case, however, ownership of the issuer passed to Viacom, and Viacom, as the sole shareholder of the issuer, remained in position, if need be, to vindicate the purpose of the statute to pursue recovery of short-swing profits of an insider.

The infirmity of *Blau* is highlighted by a careful study of the facts there presented; these were:

Oppenheim was a director of Van Winkle, a listed company, who engaged in short swing transactions and was thus subject to § 16(b) liability at the instance of security holders of Van Winkle. Plaintiff was not an owner of any security of Van Winkle at any time during its existence. Van Winkle was dissolved in its merger into M & T Chemicals, Inc., and all its assets were transferred to M & T in exchange for stock in American Can Co. Blau thereafter bought stock in American Can which, by then, owned 100% of the stock of M & T. Blau sued Oppenheim as a director of Van Winkle under § 16(b) purporting to act as the "owner of any security of the issuer." The District Judge sustained the claim of Blau, a stockholder of American Can, against Oppenheim for short-swing transactions in stock of Van Winkle on a theory that Van Winkle's assets were now in M & T. However, American Can was the stockholder of M & T, not Blau, but this was passed over by the District Judge. To effectuate the conceived purpose of § 16(b), only American Can should have been accorded status to sue, not Blau. The decision of the District Judge was never reviewed or analyzed by appeal. The public policy arguments pressed in *Blau* could only be made by ignoring the obligatory statutory requirement of stock ownership in the issuer. *Blau* granted standing to a non-owner, rather than to American Can itself, the sole holder of a security of the successor to Van Winkle.

Blau was mentioned by this Circuit and contrasted with *Untermeyer v. Valhi, Inc.*, 665 F.Supp. 297 (S.D.N.Y.1987), *aff'd mem.*, 841 F.2d 1117 (2d Cir.), *aff'd on reh'g*, 841 F.2d 25, 25 (2d Cir.) ("In *Blau* the issuer had been merged out of existence.... [and] the short swing-profits illegally gained would never have been recovered. In contrast, the issuer here, Sea-Land, survived the merger and remains a viable corporate entity. Because Sea-Land remains a viable corporate entity, it or its shareholder, CSX [the parent], can bring an action under section 16(b) to recover the short-swing profits allegedly gained.") (citations omitted), *cert. denied*, 488 U.S. 868, 109 S.Ct. 176, 102 L.Ed.2d 145 (1988). That comment is directly apposite here.

Two other circuit courts which have addressed this issue have refused to extend the statutory qualification to former shareholders of the issuer either when the issuer remains a viable corporate entity, *see Portnoy*, 607 F.2d at 769 (7th Cir.1979), or when the issuer was merged out of existence. *See Lewis v. McAdam*, 762 F.2d 800, 804 (9th Cir.1985) (per curiam) ("We hold that where a corporation is merged out of existence by the wholly owned subsidiary of another corporation, the parent corporation is not an 'issuer' within the meaning of section 16(b). Similarly, a shareholder of the parent corporation cannot be considered an 'owner of any security of the issuer' and accordingly lacks standing to bring a section 16(b) action.").

The SEC itself recognizes that qualifying former shareholders to sue, either judicially or by rule-making, is a marked departure from the pre-existing jurisprudence under § 16(b). *See* 53 Fed.Reg. at 50013 ("Currently, the plaintiff is required to hold these shares [in the issuer] throughout the legal process.") (citing *Portnoy, supra*); *Id.* ("Where the issuer continues to exist as a wholly-owned subsidiary, ... the courts have uniformly denied standing to former shareholders and shareholders of the parent.") (citing *Untermeyer, infra; Lewis, supra; Portnoy, supra.*).

It is a frequently stated principle of statutory construction that when legislation expressly provides a particular remedy or remedies, courts should not expand the coverage of the statute to subsume other remedies. *See National Railroad Passenger Corp. v. National Assoc. of Railroad Passengers*, 414 U.S. 453, 458, 94 S.Ct. 690, 693, 38 L.Ed.2d 646 (1974). "When a statute limits a thing to be done in a particular mode, it includes the negative of any other mode." *Botany Mills v. United States*, 278 U.S. 282, 289, 49 S.Ct. 129, 131–32, 73 L.Ed. 379 (1929). In short, the remedies created in § 16(b) are the exclusive means to enforce the obligation imposed by the Act. *Nat'l Railroad Passenger Corp.*, 414 U.S. at 458, 94 S.Ct. at 693.

Congress simply has not delegated to the courts the authority to qualify a "former" owner as an "owner of any security of the issuer." While I agree with the statement in *Blau*, 250 F.Supp. at 884, that "[t]he courts, particularly in our circuit, have consistently interpreted section 16(b) in 'the broadest possible' terms in order not to defeat its avowed objective," the case authorities have also taught that: "We have no constitutional authority to rewrite a statute simply because we may determine that it is susceptible of improvement." *Lewis v. McAdam*, 762 F.2d 800, 804 (9th Cir.1985) (citing *Badaracco v. Commissioner*, 464 U.S. 386, 398, 104 S.Ct. 756, 764, 78 L.Ed.2d 549 (1984)); *see also*, *Badaracco*, 464 U.S. at 401, 104 S.Ct. at 764-65 ("If the result contended for by petitioner is to be the rule, Congress must make it so in clear and unmistakable language."); *TVA v. Hill*, 437 U.S. 153, 194, 98 S.Ct. 2279, 2302, 57 L.Ed.2d 117 (1978) ("Our individual appraisal of the wisdom of a particular course consciously selected by the Congress is to be put aside in the process of interpreting the statute."); *Blau v. Lehman*, 368 U.S. 403, 413, 82 S.Ct. 451, 457, 7 L.Ed.2d 403 (1962) ("Congress is the proper agency to change an interpretation of the [1934] Act unbroken since its passage, if the change is to be made."); *Untermeyer v. Valhi*, 665 F.Supp. 297, 300 (S.D.N.Y.1987) ("the statutory language may not be strained or distorted to add to the 'prophylactic' effect Congress itself clearly prescribed in § 16(b)"), *aff'd mem.*, 841 F.2d 1117 (2d Cir.), *aff'd on reh'g*, 841 F.2d 25 (2d Cir.), *cert. denied*, 488 U.S. 868, 109 S.Ct. 175, 102 L.Ed.2d 145 (1988).

The statute unambiguously states that "the owner of any security of the issuer" may sue to recover short-swing profits that are recoverable by the issuer under § 16(b). There is simply no indication in any of the legislative history of § 16(b) that the plain meaning of the words "owner of any security of the issuer" was meant to include or even could include one who is no longer the owner of any security of the issuer. Nor is there anything in the legislative history from which to believe "that the plain meaning of the statutory language is inadequate to effect the congressional purpose of providing an enforcement mechanism against insider trading. That a merger may result in a corporation succeeding to an action formerly held by an individual is a consequence dictated by the statute." *Lewis*, 762 F.2d at 804. Certainly, Congress has had ample opportunity to amend § 16(b) had it so desired.[9]

Further, the narrow private cause of action granted by § 16(b) militates strongly against our attributing to Congress a willingness to allow a more expansive enforcement of the statute. The remedy encompasses not former stockholders of the issuer but only stockholders. As did the Seventh Circuit, we should "reject the plaintiff's invitation to draft 'judicial legislation' to grant him standing." *Portnoy*, 607 F.2d at 768.

Accordingly, I would affirm the order and judgment appealed from.

FOOTNOTES

* Hon. Milton Pollack, United States District Court for the Southern District of New York, sitting by designation.

FOOTNOTES TO OPINION OF CARDAMONE, Circuit Judge

FOOTNOTES TO DISSENTING OPINION OF POLLACK, District Judge

1. Excluded from the conversion were dissenting shares and shares held by Viacom, by International, or by a subsidiary of Viacom.

2. Certainly, the proposed rules do not govern this case, *see Mayer v. Chesapeake Ins. Co.*, 877 F.2d 1154, 1162 (2d Cir.1989) ("[t]hough the Commission has recently proposed a new rule ... which would extend § 16(b) liability ..., thereby changing existing law, ... the proposed rule does not govern the present case."), *cert. denied*, — U.S. —, 110 S.Ct. 722, 107 L.Ed.2d 741 (1990), although the majority urges that they be given persuasive weight. *See Basic Inc. v. Levinson*, 485 U.S. 224, 239 n. 16, 108 S.Ct. 978, 987 n. 16, 99 L.Ed.2d 194 (1988) ("The SEC's insights [regarding the materiality standard under Rule 10b-5] are helpful, and we accord them due deference."). In *Piper v. Chris-Craft Indus., Inc.*, 430 U.S. 1, 41 n. 27, 97 S.Ct. 926, 949 n. 27, 51 L.Ed.2d 124 (1977), the Supreme Court observed, however, that "[the SEC's] presumed 'expertise' in the securities-law field is of limited value when the narrow legal issue is one peculiarly reserved for judicial resolution, namely whether a cause of action should be implied by judicial interpretation in favor of a particular class of litigants."

3. Several times in the past decade or so Congress has legislated amendments to the 1934 Act. *See e.g.*, Insider Trading and Securities Fraud Enforcement Act of 1988, Pub.L. No. 100-704, 102 Stat. 4677 (1988); Shareholder Communications Act of 1985, Pub.L. No. 99-222, 99 Stat. 1737 (1985); Insider Trading Sanctions Act of 1984, Pub.L. No. 98-376, 98 Stat. 1264 (1984); Foreign Corrupt Practices Act of 1977, Pub.L. No. 95-213, 91 Stat. 1494 (1977); Domestic & Foreign Investment Improved Disclosure Act of 1977, Pub.L. No. 95-213, 91 Stat. 1498 (1977).

Mendell V. Gollust, 909 F.2D 724 (2d Cir.1990),Hyperlaw No. 578, Lexis No.____

Affirmed sub nom. Gollust V. Mendell __ U.S. __ (June 10, 1991), Hyperlaw SC90122

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

Docket Nos. 89-7968, 89-7686
Argued November 21, 1989 Decided July 25, 1990

Ira L. Mendell, In Behalf Of Viacom, Inc. and, Alternatively, Viacom International, Inc.,

Plaintiffs-Appellants,

V.

Keith R. Gollust, Paul E.Tierney, Jr., Augustus K. Oliver, Gollust Tierney and Oliver, Gollust & Tierney, Inc., Coniston Partners, Coniston Institutional Investors, Baker Street Partners, WJB Associates, Helston Investment, Inc., .Viacom Inc., and Viacom International, Inc.,

Defendants-Appellees.

Affirmed in Part, Reversed in Part.

Before OAKES, Chief Judge,
CARDAMONE, Circuit Judge, and
POLLACK, District Judge.*

Opinion by Cardamone, Circuit Judge
Separate Dissent by District Judge Pollack, J.

Irving Malchman (Kaufman Malchman Kaufmann & Kirby, New York City, of counsel), for plaintiffs-appellants.

Edwin B.Mishkin (James W. Pharo, Michael S. Sommer, Cleary, Gottlieb, Steen & Hamilton, New.York City, of counsel), for defendants-appellees other than nominal parties Viacom Inc., and Viacom Intern., Inc.

S.E.C. (Daniel L. Goelzer, Gen. Counsel, Jacob H. Stillman, Associate Gen. Counsel, Thomas L. Riesenberg, Asst. Gen. Counsel, Leslie E, Smith, Atty., and Paul Gonson, Sol., Washington, D.C., of counsel), filed a brief for the S.E.C., amicus curiae.

CARDAMONE, Circuit Judge

This appeal deals with a suit brought to recover short-swing profits against insiders which was dismissed in the district court. It is clear from Supreme Court precedent that liability for short-swing trading will not arise unless the securities transactions at issue fall within the literal language of the statute that prohibits over-reaching by insiders. Here plaintiffs standing to bring suit against insiders, rather than such individuals' liability, is the question presented. In resolving this issue the words of the statute must still be carefully examined, but legislative purpose may also be considered where standing is not clearly precluded by the statutory language. Congressional policy is a stubborn thing; it permeates this area of the law. In resolving this case therefore we must not defeat Congress' plain policy by viewing standing too narrowly.

BACKGROUND

Before us is an order of the Southern District of New York (Mukasey, J.), entered November 9, 1988 that granted summary judgment to defendants dismissing plaintiffs complaint for lack of standing. Plaintiff also appeals from an order dated May 23, 1989 denying his Rule 60(b) motion for relief from the November 9, 1988 order. Plaintiff appeals that dismissal of his action brought pursuant to Sec.16(b) of the Securities Exchange Act of 1934, 15 U.S.C. Sec. 78p(b) (1988). Section 16(b) provides that an owner of an issuer's security may bring an action in behalf of the issuer to recover short-swing profits realized by the corporation's officers, directors and principal stockholders. A "short-swing" profit occurs when a profit is realized on a purchase and sale, or sale and purchase, of stock occurring within a period of six months. The statute requires officers, directors and owners of more than ten percent of the issuer's stock (insiders) to disgorge short-swing profits back to the issuer.

The question presented is whether a shareholder whose shares in an issuer are converted by a business restructuring into shares of a newly formed parent corporation that owns all of the stock of the issuer loses standing to maintain a previously instituted Sec. 16(b) suit. Because we think the answer to the question posed is "no," the grant of summary judgment dismissing plaintiff's suit must be reversed.

FACTS

Plaintiff Ira L. Mendell is a former shareholder of Viacom International Inc. (International). Defendants are limited partnerships, general partnerships, individual partners and certain corporations (Coniston -or the Coniston defendants) that together invested in the stock of International. In 1986 defendants collectively owned more than ten percent of its stock. In January 1987 plaintiff filed a complaint alleging that Coniston was liable to International pursuant to Sec. 16(b) for profits arising out of Coniston's purchases and sales of International stock in 1986. Plaintiff asserted that on trades of International stock made between July and October 1986 the Coniston defendants acquired approximately ii. million dollars in short-swing profits at a time -when they were insiders by virtue of their ownership of more than ten percent of International stock. The complaint also alleged that in October 1986 a demand was made upon International and its Board of Directors to institute a Sec. 16(b) suit against the Coniston defendants, but that though more than 60 days had passed no suit had been commenced by International.

Approximately six months later, in June 1987, after Plaintiff had filed suit, International was acquired through a merger transaction by Arsenal Acquiring Corporation, a shell corporation formed for that purpose. All of International's stock was exchanged for a combination of cash and stock in Arsenal Acquiring's parent corporation called Arsenal Holdings, Inc., and Arsenal Acquiring then merged into International, which thereby became a wholly owned subsidiary of the parent, Arsenal Holdings. As part of the merger, Arsenal Holdings changed its name to Viacom, Inc. (Viacom), Thus plaintiff, who held shares in International when he brought suit to recover insider profits for the issuer, now holds shares in its parent, Viacom. Viacom is the sole shareholder of International, and International is the parent corporation's sole asset.

At a pretrial conference held in February 1988 defendants asserted that plaintiff no longer had standing to maintain his Sec. 16(b) suit since he was no longer a shareholder of International. In March 1988 plaintiff served an amended complaint asserting that he had standing to bring the action in behalf of Viacom, the parent corporation, which be claimed was effectively the "issuer." Alternatively, he contended that he had standing to bring the action as a double-derivative action in behalf of International. Coniston moved for summary judgment. On November 9, 1988 the district court granted summary judgment to defendants because plaintiff lacked standing, ruling that "[s]uits to disgorge ill-gotten gains under Sec. 16(b) may be prosecuted only by the issuer itself or the holders of its securities." Mendell v. Gollust, (1988-89] Fed.Sec.L.Rep. (CCH) Par. 94,086 at 91,086, 1988 WL 123703 (S.D.N.Y.1988).

On January 9, 1989-after the opinion issued but before the judgment of dismissal was entered on January 17, 1989-plaintiff purchased a subordinated note issued by International. In March 1989 plaintiff made a motion pursuant to Fed.R.Civ.P. 60(b) asserting that he now had standing as a noteholder of International, and that the judgment entered some weeks earlier should be vacated. In an opinion dated May 23, 1989 the district court denied the Rule 60(b) motion stating that counsel's failure to advise his client to purchase the note earlier did not provide grounds to overturn the judgment. See Mendell v. Gollust, (Current Volume] Fed.Sec.L.Rep. (CCH) . Par. 94,477, 1989 WL 56252 (S.D.N.Y. 1989).

We heard oral argument on November 21, 1989, and on November 28 requested the Securities and Exchange Commission (SEC) to submit an amicus curiae brief setting forth its views on plaintiffs standing under Sec. 16(b). We now have the benefit of the SEC's amicus curiae brief filed on January 10, 1990.

DISCUSSION

I Section 16(b)

A. Policy Considerations and Legisl ative Purpose

In order to determine how broadly Sec. 16(b)'s standing requirements should be construed, we begin with a brief examination of the policy considerations and the legislative purpose that preceded the enactment of the statute. The Securities Act of 1934 in general and Sec. 16(b) in particular were passed to insure the integrity of the securities markets and to protect the investing public. See 15 U.S.C. Sec. 78p(b) (1988); Federal Securities Exchange Act-of 1934, S.Rep.No. 792, 73d Cong., 2d Sess. 9 (1934) [Senate Report]; 2 L. Loss, Securities Regulation 1037-38, 1040-41 (2d ed. 1961).

The Committee on Banking and Currency heard many instances where insiders either personally or through the medium of holding companies made large-profits from the use of information not available to the public. Senate Report at 9. It concluded that the reporting requirements regarding changes in insider holdings and the -provision making profits recoverable on sales or purchases made within six months would render difficult or impossible trading on advance information by insiders for profit. Id. The bill's provisions were for the express purpose of preventing the unfair use of inside information. Id. at 21.

Among the most vicious practices unearthed at the hearings before the subcommittee was the flagrant betrayal of their fiduciary duties by directors and officers of corporations who used their positions of trust and the confidential information which came to them in such positions, to aid them in their market activities.

Stock Exchange Practices, Report of the Committee on Banking and Currency, S.Rep.No. 1455, 73d Cong., 2d Sess. 55 (1934). Hence, Congress envisioned. Sec. 16(b) as a remedial law that would deter those "intrusted with the administration of corporate affairs or vested with substantial control over corporations [from using) inside information for their own advantage." Id. at 68..

B. · Judicial Construction of Sec. 16(b)

Since its passage the Supreme Court has construed Sec. 16(b) in a number of cases. In the earliest, Blau v. Lehman, 368 U.S. 403, 82 S.Ct. 451, 7 L.Ed.2d 403 (1962), it refused to hold an entire partnership liable for short-swing profits as an insider when one of its members was a director of the issuer because the plain language of Sec. 16(b) did not provide for partnership liability, though the director was susceptible to suit in his individual capacity for the profits he realized. Id. at 411-14, 82 S.Ct. at 455-57. In Kern County Land Co. v. Occidental Petroleum Corp., 411 U.S. 582, 93 S.Ct. 1736, 36 L.Ed.2d 503 (1973), a tender-offeror that purchased more than ten percent of the stock of Kern County Land Co. had its shares of Kern converted into new Tenneco stock when Tenneco merged with Kern in a defensive transaction. The tender-offeror negotiated a contract to sell to Tenneco the shares it would receive after the merger. Writing that traditional cash-for-stock purchases fall within Sec. 16(b), but that certain "unorthodox" transactions are not so easy to resolve, the Court observed that these "borderline" transactions are within the statute's reach if they are a vehicle promoting the evil Congress sought to prevent. Id. at 593-94, 93 S.Ct. at 1744. The Court noted that the transaction in question was not based on a statutory insider's information and therefore was not vulnerable to the speculative abuse barred by Sec. 16(b), and held that neither the exchange of shares in the merger nor the execution of the option contract constituted a "sale" under. Sec. 16(b). See id. at 600-01, 93 S.Ct. at 1747-48.

In Reliance Electric Co. v. Emerson Electric Co., 404 U.S. 418, 92 S.Ct. 596, 30 L.Ed.2d 575 (1972), Emerson Electric, a holder of more than ten percent of Dodge Manufacturing Go., made two sales of stock within six months after purchasing it, the first of which reduced its holdings to less than ten percent. The question was whether the profits from the second sale, made within six months of its purchase but not while Emerson was a ten percent holder, were recoverable by the corporation under Sec. 16(b). In holding that they were not, the Supreme Court observed that a ten percent owner must under the statute be such "'both at the time of the purchase and sale ... of the security involved,'" 15 U.S.C. Sec. 78p(b), and since Emerson Electric was not such an owner at the time of the second sale, the method it had used to avoid liability was one permitted by the statute. 404 U.S. at 422-23, 92 S.Ct. at 599-600. The Court reasoned that, because liability under the statute is predicated upon objective proof, a trader's intent and/or motive is irrelevant and hence, Emerson Electric was not liable under Sec. 16(b). Id. at 425, 92 S.Ct. at 600. In -Reliance the statutory language was clear; only where differing constructions of Sec. 16(b)'s terms are possible may a court interpret the statute in a way that serves Congress' purpose. Id. at 424, 92 S.Ct. at 600. Here, we are faced with the latter scenario.

C. Broad Interpretation of Sec. 16(b)

When the statute permits interpretation the section traditionally has been read broadly in view of its remedial purposes. The disgorgement provision is aimed at deterring insider trading by removing the profits from "a class of transactions in which the possibility of abuse [is] believed to be intolerably great." Id. at 422, 92 S.Ct. at 599. The statute presumes that insiders in a company have access to nonpublic information regarding its operation and will use that information when trading in the issuer's stock, and thus proof of the actual use of such inside information is not required. See Foremost-McKesson, Inc. v. Provident Sec. Co., 423 U.S. 232 243, 251, 96 S.Ct. 608, 519, 46 L.Ed.2d 464 (1976); Reliance Elec., 404 U.S. at 422, 92 S.Ct. at 599; Smolowe v. Delendo Corp., 136 F.2d 231, 235-36 (2d Cir.), cert. denied, 320 U.S. 751, 64 S.Ct. 56, 88 L.Ed. 446 (1943).

We and most other courts have adopted a " pragmatic" approach, construing Sec. 16(b) in a manner that seems most consistent with Congress' purpose. See Kern County Land Co., 411 U.S. at 594, 93 S.Ct. at 1744 ("the courts have come to inquire whether the transaction may serve as a vehicle for the evil which Congress sought to prevent"); Reliance Elec., 404 U.S. at 424, 92 S.Ct. at 600 ("where alternative constructions of the terms of Sec. 16(b) are possible, those terms are to be given the construction that best serves the congressional purpose of curbing short-swing speculation by corporate insiders."); Feder v. Martin Marietta Corp., 406 F.2d 260, 262 (2d Cir.1969) (courts interpret Sec. 16(b) in ways most consistent with legislative purpose "even departing where necessary from the literal statutory language."), cert. denied, 396 U.S. 1036, 90 S.Ct. 678, 24 L.Ed.2d 681 (1970).

II Standing Under Sec. 16(b)

A. Broadly Construed

To effectuate its purposes the statute permits "the owner of any security of the issuer" to bring suit in behalf of the corporation. 15 U.S.C. Sec. 78p(b). Such person may institute a Sec. 16(b) claim behalf of the issuer if the latter fails to bring suit after the stockholder so requests. See id. Because such a suit is not brought in his own, but rather the corporation's behalf, Sec. 16(b)'s standing requirements have been given wide latitude. See Pellegrino v. Nesbit, 203 P.2d 463, 466 (9th Cir.1953); See also Prager v. Sylvestri, 449 F.Supp. 425, 429 (S.D.N.Y.1978) (demand requirement of Sec. 16(b) exists for benefit of the issuer; defendant insider may not assert lack of demand as a defense.). A Sec. 16(b) plaintiff performs a public rather than a private function and is seen as an instrument for advancing legislative policy. See Magida v. Continental Can Co., 231 F.2d 843, 846-47 (2d Cir.), cert. denied, 351 U.S. 972, 76 S.Ct. 1031, 100 L.Ed. 1490 (1956).

The standing requirements for shareholder derivative suits are not applicable to a Sec. 16(b) plaintiff. See Blau v. Mission Corp., 212 F.2d 77, 79 (2d Cir.), cert. denied, 347 U.S. 1016, 74 S.Ct. 872, 98 L.Ed. 1138 (1954); Rothenberg v. United Brands Co., [1977-78] Fed.Sec.L.Rep. (CCH) par 96,045 at 91,691-92, 1977 WL 1014 (S.D.N.Y.); aff'd mem., 573 F.2d 1295 (2d Cir. 1977); 2 L. Loss, Securities Regulation at 1045-47. Generally a derivative plaintiff must be a shareholder at the time of the transaction of which he complains, the action must not be a collusive one to confer federal jurisdiction, and the complaint must allege with particularity the efforts made to obtain the desired action. See Fed.R. Civ.P. 23.1. In contrast, in a Sec. 16(b) suit the complaining stockholder need not have held his securities at the time of the objectionable transaction. See Blau v. Mission Corp., 212 F.2d at 79. Suit may be brought by the holder of any of the issuer's securities equity or debt-regardless of whether the security held is of the same class as those subject to disgorgement as standing than the plaintiff in the instant case, because in Oppenheim the plaintiff never held shares in the original issuer, but purchase d shares in the parent only after the merger. Further, we do not rely on the' interpretation of "issuer" set forth in Oppenheimer but focus instead on whether a security holder loses his standing as an "owner" of securities when his stock is involuntarily converted in a merger.

The probability that the statute will not be enforced is present to the same degree when the original issuer survives the merger as a wholly-owned subsidiary of the parent corporation as. it was in Oppenheim. In such circumstance no public shareholders remain to bring an action. As a practical matter it is unrealistic to believe that the issuing corporation will bring an action against itself or its insiders. See Rothenberg, [1977-78] Fed.Sec.L.Rep. pp 96,045 at 91,691; cf. Lewis v. McAdam, 762 F.2d 800, 802 (9th Cir. 1985) (per curiam); Magida, 231 F.2d at 846. Leaving insiders to police themselves is not only contrary to Sec. 16(b)'s private shareholder enforcement purpose, but also can be expected to secure the same results as those obtained when a fox guards a chicken coop. Concededly, some protection against insider abuse may still be available through a stockholder's derivative suit for b reach of fiduciary duty. Yet such a suit is not as effective as a Sec. 16(b) claim because shareholders are subject to the already noted more stringent standing requirements of Rule 23.1, and, in addition, the complaint may be countered with subjective considerations of intent or good faith, such as a business judgment defense. Cf. Oppenheim, 250 F.Supp. at 887.

Moreover, the SEC endorses the view that the policy of Sec. 16(b) is best effectuated by allowing plaintiff to maintain this suit See Ownership Reports and Trading By Officers, Directors and Principal Stockholders, Securities Exchange Act Rel.No. 26333 (Dec. 2, 1988), 42 SEC Docket 570, 53 Fed.Reg. 49997 (Dec. 13, 1988) [SEC Rel. No. 26333]. Although not binding on us, the SEC's insights in construing securities laws are entitled to consideration. See Basic Inc. v. Levinson, 485 U.S. 224, 239 n. 16, 108 S.Ct. 978, 987 n. 16, 99 L.Ed.2d 194 (1988); TSC Indus., Inc. v. Northway, Inc., 426 U.S.C 438,449 n. 10, 96 S.Ct. 2126, 2132-33 n. 10, 48 L.Ed.2d 757 (1976).

Proposed SEC Rule 16a-1(h) would specifically define "owner" of a security as either a current beneficial owner of securities of the issuer at the time suit was filed on a former beneficial owner who was compelled to relinquish his holdings as a result of a business combination. See SEC Rel. No. 26333. While the proposed rule is inapplicable in the case at hand, cf Mayer v. Chesapeake Ins. Co., 877 F.2d 21154, 1162 (2d Cir.1989), cert. denied, __U.S.__, 110 S.Ct. 722, 107 L.Ed.2d 741 (1990), it reflects the strength of the SEC's convictions.

B. Standing Not Barred by existing Law

Defendants and the dissenting opinion assert it is "settled law" that a security holder who commences a Sec. 16(b) suit must remain a security holder throughout the litigation and if he ceases to own the securities he loses his standing to continue the action. See Untermeyer v. Valhi Inc., 665 F.Supp' 297 (S.D.N.Y.1987), . affd mem., 841 F.2d 1117 (2d Cir.), affd on rehearing, 841 F.2d 25 (2d Cir.) (per curiam), cert denied, 488 U.S. 868, 109 S.Ct. 175, 102 L.Ed.2d 145 (1988); Rothenberg, [1977-78] Fed.Sec.L.Rep. (CCH) pp 96,045; see also Lewis, 762 F.2d 800; Portnoy, 607 F.2d 765; Staffin v. Greenberg, 509 F.Supp. 825, 840 (E.D.Pa.1981), affd on other grounds, 672 F.2d 1196 (3d Cir.1982). That conclusion is not mandated either by the statutory language or by the cited cases.

First, the language of the statute speaks of the "owner" of securities; but such language is not modified by the word "current" or any like limiting expression. The statute does not specifically bar the maintenance of Sec. 16(b) suits by former shareholders and Congress, had it so desired, could readily have eliminated such individuals as plaintiffs. The broad meaning of the word owner better accords with the remedial purpose of the statute. Second, although some decisions have denied standing to a 16(b) plaintiff on the grounds that he is not a current security holder, those cases are distinguishable, The district court, for example, relied upon Untermeyer v. Valhi, Inc., which dealt with a plaintiff who owned stock of the parent corporation, but who never owned stock of the company that issued the shares traded in contravention of Sec. 16(b). 665 F.Supp at 298. Thus, even without a merger the Untermeyer plaintiff would not have had standing. In contrast, plaintiff here brought a valid Sec. 16(b) suit while he was a current shareholder of the issuer, and but or the merger standing would not be in issue here.

In Rothenberg v. United Brands Co., also cited by the district court, the shareholders received cash in the merger instead of securities. The crucial factor considered by the trial court was that in a cashout merger the former shareholders maintain no continuing financial interest in the litigation. See Rothenberg, [1977-78] Fed. Sec.L.Rep. (CCH) Par. 96,045 at 91,692. In the present case all former International shareholders obtained, as a result of the merger, shares of International's parent corporation, and plaintiff, as one of them, continues to have at least an indirect financial interest in the outcome of this lawsuit. Two additional reasons caution against an overbroad application of Rothenberg. That decision noted that even if plaintiff had standing the Sec. 16(b) claim failed on the merits, see id. at 91,693-94; and the court's standing analysis was premised on an analogous application of Rule 23.1 which, as noted above, does not govern shareholders bringing Sec. 16(b) claims. Id. at 91,69192.

Contrary decisions of our sister circuits are similarly distinguishable. See Lewis, 762 F.2d at 801 (plaintiff shareholder of parent but never held stock in the issuer or its surviving subsidiary); Portnoy, 607 F.2d at 767-68 (cashout merger left plaintiff with no continuing financial interest in the litigation; plaintiffs alternative status as a shareholder in the grandparent corporation gave no standing for 16(b) suit on behalf of the issuer). In the case at bar, the conversion of International stock into Viacom stock presents a novel situation where former shareholders have a continuing interest in maintaining suit in behalf of the issuer. We conclude, therefore, that under those unique circumstances the cases cited by defendants are neither controlling nor persuasive.

Here plaintiff's suit was timely, and while his Sec. 16(b) suit was pending he was involuntarily divested of his share ownership in the issuer through a merger. But for that merger plaintiff's suit could not have been challenged on standing grounds. Although we decline-in keeping with Sec. 16(b)'s objective analysis regarding defendants' intent-to inquire whether the merger was orchestrated for the express purpose of divesting plaintiff of standing, we cannot help but note that the incorporation of Viacom and the merger proposal occurred after plaintiffs Sec. 16(b) claim was instituted. Hence, the danger of such intentional restructuring to defeat the enforcement mechanism incorporated in the statute is clearly present.

Quite plainly, a rule that allows insiders to avoid Sec. 16(b) liability by divesting public shareholders of their cause of action through a business reorganization would undercut the function Congress planned to have shareholders play in policing such actions. See Oppenheim, 250 F.Supp. at 887; SEC Rel. No. 26338.

Permitting plaintiff to maintain this 16(b) suit is not barred by the language of the statute or by existing case law, and it is fully consistent with the statutory objectives. The grant of summary judgment must therefore be reversed. If it is established that profits were realized in contravention of the statute they should be disgorged to International. The section is designed to protect fairness interests, not provide compensatory relief. The result we reach will adequately protect the former International shareholders who now own International indirectly as shareholders of Viacom. Cf. American Standard, Inc. v. Crane Co., 510 F.2d 1043, 1060-61 (2d Cir.1974), cert denied, 421 U.S. 1000, 95 S.Ct. 2397, 44 L.Ed.2d 667 (1975).

Because the plaintiff has standing under 16(b), we do not reach the district court's rejection of plaintiffs standing argument based upon an alleged "double derivative" action. See Mendell, [1988-89] Fed.Sec.L. Rep. (CCH) Par. 94,086 at 91,087.

III

Plaintiff's Standing as a Noteholder Under Fed.R.Civ.P. 60(b)

In light of our reversal of the November 9, 1988 order and subsequent judgment of dismissal gives plaintiff his requested relief, plaintiff's appeal of the motion brought pursuant to Rule 60(b) is to some extent mooted. Nevertheless, we write to affirm the district court's denial of the Rule 60(b) motion in order to emphasize that plaintiff's purchase of a senior subordinated note of International did not provide grounds to vacate the district court's initial order.

The relevant portions of Rule 60(b) provide that "upon such terms as are just, the court may relieve a party ... from a final judgment [or] order ... for the following reasons: (1) mistake, inadvertence, surprise, or excusable neglect, ... or (6) any other reason justifying relief from the operation of the judgment." Fed.R.Civ.P. 60(b). Motions under Rule 60(b) are addressed to the sound discretion of the district court and are generally granted only upon a showing of exceptional circumstances, Nemaizer v. Baker, 793 F.2d 58, 61 (2d Cir.1986).

Plaintiff argues that he purchased the International note " as soon as it occurred to plaintiff's counsel (1) that any security holder of International could maintain a 16(b) action and (2) that notes of International were available to be purchased." We agree with the district court that counsel's ignorance of the law on this point cannot form the basis for relief under subdivision (1) of Rule 60(b). See id at 62-63. Nor can we say that the district court abused its discretion when it denied relief under subdivision (6) of Rule 60(b). Plaintiff's acquisition of a note following an adverse ruling on his claim to standing as a shareholder did not present the kind of "extraordinary" circumstance that mandates relief to avoid an "extreme and undue hardship." See Ackermann v. United States, 340 U.S. 193, 199, 71 S.Ct. 209, 212, 95 L.Ed. 207 (1950); Matarese V. LeFevre, 801 F.2d 98, 106 (2d Cir.1986), cert. denied, 480 U.S. 908, 107 S.Ct. 1353, 94 L.Ed.2d 523 (1987).

As a noteholder of International, plaintiff clearly has standing to bring a Sec. 16(b) claim in International's behalf. See 15 U.S.C. Sec. 78p(b). Yet his newly acquired noteholder status does not afford grounds to vacate an order premised on his status as a former shareholder.

CONCLUSION

The district court's order entered May 24, 1989 is affirmed. Its order entered November 9, 1988 and the subsequent judgment of dismissal entered January 17, 1989 are reversed and the case is remanded to the district court for further proceedings consistent with this opinion.

MILTON POLLACK, Senior District
Judge, dissenting:

The majority's ruling departs from the unequivocal terms of the statute to be administered and from the prior case law of this Court applying the statute, and it conflicts with rulings of the other Circuits which have addressed the requirements of the statute, Sec. 16(b) of the Securities Exchange Act of 1934, 15 U.S.C. Sec. 78p(b).

A corporate merger during the pendency of this suit has sparked the judicial controversy presented to this Court.

Plaintiff was the owner of stock issued by International (Viacom International Inc.) at the time he filed this suit. He seeks to recover short-swing profits of beneficial owners of more than 10% of the stock of International. During the pendency of the suit, the plaintiff ceased being an owner of International stock as the result of a corporate merger. The defendants then moved, successfully, to dismiss the complaint. That dismissal is on appeal to this Court.

International had been organized as a wholly-owned subsidiary of CBS Inc. for the purpose of owning the television program distribution and cable television businesses of CBS. The CBS interest in International was distributed to the CBS stockholders on a pro rata basis. Some time later, Arsenal Holdings Inc. ("Holdings") was organized for the purpose of acquiring International in a merger transaction which had a business purpose. A wholly-owned subsidiary of Holdings was merged with and into International, and, as a result of the merger, International remained a viable corporate entity but became an indirect, wholly-owned subsidiary of Holdings. Holdings changed its name to Viacom, Inc. ("Viacom"). Each share of Viacom stock, including plaintiff's stock, was converted into the right to receive (i) $43.20 and (ii) certain percentages of preferred and common stock of Viacom.1 Plaintiff accepted the conversion and received cash and Arsenal Holdings (now called "Viacom") stock in the exchange.

Refined to simpler understanding of the implication of the corporate merger, it appears that the plaintiff ceased to be a shareholder of International; he had exchanged his holdings in the issuer, International, for cash and preferred and common stock of Arsenal Holdings Inc., which had become the 100% owner of International in the merger. Under the merger exchange the previously outstanding stock of International was canceled, including plaintiff's shares, In this state of affairs, under the explicit language of Sec. 16(b), the right to bring a Sec. 16(b) suit on behalf of International, the issuer, was limited to either International, the original issuer, or Viacom, its new sole stockholder.

Thus the grounds of difference between the majority of the Court and this dissent are that the plaintiff no longer satisfies the plain statutory requirement-ownership of securities of the issuer.

Prior to the holding of the majority herein, it was axiomatic that an "owner of any ports and Trading by Officers, Directors and Principal Security Holders, 54 Fed. Reg. 35667 at 35678 (Aug. 29, 1989) ("In response to comment received, the Commission reproposes a more limited definition, The revised proposed definition would extend standing only to former security holders w ho had filed suit before surrendering their securities. ").2

The majority of this Court, as. well as the SEC, point to the fact that plaintiff is now a shareholder of the parent corporation, Viacom, as further support for the plain extension of the scope of the statute, citing Blau v. Oppenheim, 250 F.Supp. 881, 884 (S.D.N.Y.1966). Reliance on Blau, however, is misplaced;. it was factually, materially, different. In Blau, the issuer was merged out of existence, leading to the argument there made that if a successor was not permitted to sue under Sec. 16(b) no other party would be available to vindicate the policy of the statute. 250 F.Supp. at 886. In the present case, however, ownership of the issuer passed to Viacom, and Viacom, as the sole shareholder of the issuer, remained in position, if need be, to vindicate the purpose of the statute to pursue recovery of short-swing profits of an insider.

The infirmity of Blau is highlighted by a careful study of the facts there presented; these were:

Oppenheim was a director of Van Winkle, a listed company, who engaged in short swing transactions and was thus subject to s 16(b) liability at the instance of security holders of Van Winkle. Plaintiff was not an owner of any security of Van Winkle at any time during its existence. Van Winkle was dissolved in its merger into M & T Chemicals, Inc., and all its assets were transferred to M & T in exchange for stock in American Can Co. Blau thereafter bought stock in American Can which, by then, owned 100% of the stock of M & T. Blau sued Oppenheim as a director of Van Winkle under Sec. 16(b) purporting to act as the "owner of any security of the issuer." The District Judge sustained the claim of Blau, a stockholder of American Can, against Oppenheim for short-swing transactions in stock of Van Winkle on a theory that Van Winkle's assets were now in M & T. However, American Can was the stockholder of M & T, not Blau, but this was passed over by the District Judge. To effectuate the conceived purpose of Sec. 16(b), only American Can should have been accorded status to sue, not Blau. The decision of the District Judge was never. reviewed or analyzed by appeal. The public policy arguments pressed in Blau could only be made by ignoring the obligatory statutory requirement of stock ownership in the issuer. Blau granted standing to a non-owner, rather than to American Can itself, the sole holder of a security of the successor to Van Winkle.

Blau was mentioned by this Circuit and contrasted with Untermeyer V. Valhi, Inc., 665 F.Supp. 297 (S.D.N.Y.1987), affd mem., 841 F.2d 1117 (2d Cir.), affd on reh'g. 841 F.2d 25, 25 (2d Cir.) ("In Blau the issuer had been merged out of existence.... [and] the short swing-profits illegally gained would never have been recovered. In contrast, the issuer here, SeaLand, survived the merger and remains a viable corporate entity. Because Sea-Land remains a viable corporate entity, it or its shareholder, CSX [the parent), can bring an action under section 16(b) to. recover the short-swing profits allegedly gained.") (citations omitted), cert. denied, 488 U.S. 868, 109 S.Ct. 175, 102 L.Ed.2d 145 (1988). That comment is directly apposite here.

Two other circuit courts which have addressed this issue have refused to extend the statutory qualification to former shareholders of the issuer either when the issuer remains a viable corporate entity, see Portnoy, 607 F.2d at 769 (7th Cir.1979), or when the issuer was merged out of existence. See Lewis v. McAdam, 762 F.2d 800, 804 (9th Cir.1985) (per curiam) ("We hold that where a corporation is merged out of existence by the wholly owned subsidiary of another corporation, the parent corporation is not an 'issuer' within the meaning of section 16(b). Similarly, a shareholder of the parent corporation cannot be considered an 'owner of any security of the issuer' and accordingly lacks standing to bring a section 16(b) action.").

The SEC itself recognizes that qualifying former shareholders to sue, either judicially or by rule-making, is a marked departure from the preexisting jurisprudence under Sec. 16(b). See 53 Fed.Reg. at 50013 ("Currently, the plaintiff is required to hold these shares [in the issuer) throughout the legal process.") (citing Portnoy, Supra.); Id. ("Where the issuer continues to exist as a wholly-owned subsidiary, ... the courts have uniformly denied standing to former shareholders and shareholders of the parent.") (citing Untermeyer, infra; Lewis, supra; Portnoy, supra.).

It is a frequently stated principle of statutory construction that when legislation expressly provides a particular remedy or remedies, courts should not expand the coverage of the statute to subsume other remedies. See National Railroad Passenger Corp. v. National Assoc. of Railroad Passengers, 414 U.S. 453, 458, 94 S.Ct. 690, 693, 38 L.Ed.2d 646 (1974). "When a statute limits a thing to be done in a particular mode, it includes the negative of any other mode." Botany, Mills v. United States, 278 U.S. 282, 289, 49 S.Ct. 129, 131-32, 73 L.Ed. 379 (1929). In short, the remedies created in Sec. 16(b) are the exclusive means to enforce the obligation imposed by the Act. Nat'l Railroad Passenger Corp., 414 U.S. at 458, 94 S.Ct. at 693.

Congress simply has not delegated. to the courts the authority to qualify a "former" owner as an "owner of any security of the issuer." While I agree with the statement in. Blau, 250 F.Supp. at 884, that;.."[t]he courts, particularly in our circuit, have consistently interpreted section 16(b) in 'the broadest possible' terms in. order not to defeat its avowed objective," the case authorities have also taught that: "We have no constitutional authority to rewrite a statute simply because we may determine that it is susceptible of improvement." Lewis v.

McAdam, 762 F.2d 800, 804 (9th Cir.1985) (citing Badaracco v. Commissioner, 464 U.S. 386, 398, 104 S.Ct. 756, 764, 78 L.Ed.2d 549 (1984)); see also, Badaracco, 464 U.S. at 401, 104 S.Ct. at 76465 ("If the result contended for by petitioner is to be the rule, Congress must make it so in clear and unmistakable language."); TVA v. Hill, 437 U.S. 153, 194, 98 S.Ct. 2279, 2302, 57 L.Ed.2d 117 (1978) ("Our individual appraisal of the wisdom of a particular course consciously selected by the Congress is to be put aside in the process of interpreting the statute."); Blau v. Lehman, 368 U.S. 403, 413, 82 S.Ct. 451, 457, 7 L.Ed.2d 403 (1962) ("Congress is the proper agency to change an interpretation of the [1934] Act unbroken since its passage, if the change is to be made."); Untermeyer v. Valhi, 665 F.Supp. 297, 300 (S.D.N.Y.1987) ("the statutory language may not be strained or distorted to add to the 'prophylactic' effect Congress itself clearly prescribed in Sec. 16(b)"), affd mem., 841 F.2d 1117 (2d Cir.), affd on reh'g, 841 F.2d 25 (2d Cir.), cert. denied, 488 U.S. 868, 109 S.Ct. 175, 102 L.Ed.2d 145 (1988).

The statute unambiguously states that "the owner of any security of the issuer" may sue to recover short-swing profits that are recoverable by the issuer under Sec. 16(b). There is simply no indication in any of the legislative history of Sec. 16(b) that the plain meaning of the words "owner of any security of the issuer" was meant to include or even could include one who is no longer the owner of any security of the issuer. Nor is there anything in the legislative history from which to believe "that the plain meaning of the statutory language is inadequate
to effect the congressional purpose of providing an enforcement mechanism against insider trading. That a merger may result in a corporation succeeding to an action formerly held by an individual is a consequence dictated by the statute." Lewis, 762 F.2d at 804. Certainly, Congress has had ample opportunity to amend Sec. 16(b) had it so desired.3

Further, the narrow private cause of action granted by Sec. 16(b) militates strongly against our attributing to Congress a willingness to allow a more expansive enforcement of the statu@ The remedy encompasses not former stockholders of the issuer but only stockholders. As did the Seventh Circuit, we should "reject the plaintiff's invitation to draft 'judicial legislation' to grant him standing." Portnoy, 607 F.2d at 768.

Accordingly, I would affirm the order and judgment appealed from.

FOOTNOTES

*Hon. Milton Pollock, United States District Court for the Southern District of New York, sitting by degination.

FOOTNOTES TO OPINION OF CARDAMONE, Circuit Judge

None

FOOTNOTES TO DISSENTING OPINION OF POLLACK. District Judge

1. Excluded from the conversion were dissenting shares and shares held by Viacom, by International, or by a subsidiary of Viacom.

2. Certainly, the proposed rules do not govern this case, see Mayer v. Chesapeake Ins. Co., 877 F.2d 1154, 1162 (2d Cir.1989) ("[t]hough the Commission has recently proposed a new rule ... which would extend Sec. 16(b) liability thereby changing existing law, ... the proposed rule does not govern the present case."), cert. denied - - U.S. -, 110 S.Ct. 722, 107 L.Ed.2d 741 (1990), although the majority urges that they be given persuasive weight. See Basic Inc. v. Levinson, 485 U.S. 224, 239 n. 16, 109 S.Ct. 978, 987 n. 16, 99 L.Ed.2d 194 (1988) ("The SEC's Insights [regarding the materiality standard under Rule 10b-5] are helpful, and we accord them due deference."). In Piper v. Chris Craft Indus., Inc., 430 U.S. 1, 41 n. 27, 97 S.Ct. 926, 949 n. 27, 51 L.Ed.2d 124 (1977), the Supreme Court observed, however, that "[the SEC's] presumed 'expertise' in the securities-law field is of limited value when the narrow legal issue is one peculiarly reserved for judicial resolution, namely whether a cause of action should be implied by judicial interpretation in favor of a particular class of litigants."

3. Several times in the past decade or so Congress has legislated amendments to the 1934 Act See eg., Insider Trading and Securities Fraud Enforcement Act of 1988, Pub.L. No. 100-704, 102 Stat. 4677 (1988); Shareholder Communications Act of 1985, Pub.L. No. 99222, 99 Stat. 1737 (1985); Insider Trading Sanctions Act of 1984, Pub.L. No. 98-376, 98 Stat. 1264 (1984); Foreign Corrupt Practices Act of 1977, Pub.L No. 95-213, 91 Stat. 1494 (1977); Domestic & Foreign Investment Improved Disclosure Act of 1977, Pub.L. No. 95-213, 91 Stat. 1498 (1977).

Exhibit 13

Letter Dated October 9, 1991,
James E. Schatz,
Opperman Heins Paquin to
Alan D. Sugarman,
HyperLaw, Inc.

OPPERMAN HEINS & PAQUIN
ATTORNEYS AT LAW
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October 9, 1991

Mr. Alan D. Sugarman
Suite 4
17 West 70th Street
New York, NY 10023

Dear Mr. Sugarman:

I am responding to your letter of September 19. That letter and the enclosures again reveal that you need to obtain knowledgeable advice regarding copyright law before you proceed. As I have indicated previously, West is not in the business of giving such advice. Moreover, given the tone of your letters, I'm sure you would question West's view of the legality of what you propose.

However, your enclosures do somewhat clarify the factual situation and I will try to help you by pointing out some facts and issues which you should make known to competent copyright counsel to obtain the advice you seek.

First, you should point out that the <u>original</u> <u>copy</u> of West case reports you propose to make will include (before such material is "blacked out") the <u>entire</u> case report and thus all editorial features -- synopsis, headnotes, key number classifications, headnote reference numbers, pagination, etc. In the example you give, this is true both for <u>Mendell v. Gollust</u>, 909 F.2d 724 (2d Cir. 1990) ("<u>Mendell</u>") and for <u>Belade v. ITT Corporation</u>., 909 F.2d 736 (2d Cir. 1990). You should inquire as to the effect of 17 U.S.C. §106(1).

Second, you should <u>carefully</u> compare the enclosed copy of the public domain <u>slip</u> <u>opinion</u> in <u>Mendell</u> to the West <u>case</u> <u>report</u>. In addition to the West editorial material added to produce the case report (initially and throughout the opinion), you will see that the slip opinion and case report vary <u>substantially</u> in their selection, coordination and arrangement of material included. Some West case reports vary more in such selection, coordination and arrangement from the slip opinions and some less, but all vary to a substantial degree. You should inquire as to the effect of 17 U.S.C. 103(b), the definition of "compilation" in 17 U.S.C. § 101 and how the Feist case you have cited interprets these provisions.

Third, the copyright notice in 909 F.2d clearly states that "Copyright is not claimed as to any part of the original work prepared by a United States Government officer or employee as part of that person's official duties." You should point out that the "original work" in question here is the enclosed slip opinion which is on file with the Second Circuit and can be obtained (as West did) directly from that Court.

Finally, with respect to the issue of a license, it was you who raised this possibility in your initial letter of July 1. It is, of course, up to you as to whether you want to request a license.

Very truly yours,

OPPERMAN HEINS & PAQUIN

James E. Schatz

JES/C1
Enclosure

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

Nos. 468, 562—August Term 1989

(Argued November 21, 1989 Decided July 25, 1990)

Docket Nos. 89-7068, 89-7686

IRA L. MENDELL, in behalf of Viacom, Inc. and, alternatively, Viacom International, Inc.,

Plaintiffs-Appellant,

—v.—

KEITH R. GOLLUST, PAUL E. TIERNEY, JR., AUGUSTUS K. OLIVER, GOLLUST TIERNEY and OLIVER, GOLLUST & TIERNEY, INC., CONISTON PARTNERS, CONISTON INSTITUTIONAL INVESTORS, BAKER STREET PARTNERS, WJB ASSOCIATES, HELSTON INVESTMENT, INC., VIACOM INC., and VIACOM INTERNATIONAL, INC.,

Defendants-Appellees.

Before:

OAKES, *Chief Judge*, CARDAMONE, *Circuit Judge*, and POLLACK, *District Judge*.*

* Hon. Milton Pollack, United States District Court for the Southern District of New York, sitting by designation.

Plaintiff, Ira L. Mendell, appeals from an order of the District Court for the Southern District of New York (Mukasey, J.), entered November 9, 1988, granting defendants' motion for summary judgment and dismissing plaintiff's complaint on the grounds that plaintiff lacked standing to bring the claim. Plaintiff also appeals an order, entered May 24, 1989, denying his motion for relief from the November 9, 1988 order and judgment of dismissal pursuant to Federal Rule of Civil Procedure 60(b).

The order of November 9, 1988 is reversed and remanded.

The order of May 24, 1989 is affirmed.

Judge Pollack dissents in a separate opinion.

IRVING MALCHMAN, New York, New York (Kaufman Malchman Kaufmann & Kirby, New York, New York, of counsel), *for Plaintiff-Appellant.*

EDWIN B. MISHKIN, New York, New York (James W. Pharo, Michael S. Sommer, Cleary, Gottlieb, Steen & Hamilton, New York, New York, of counsel), *for Defendants-Appellees other than nominal parties Viacom Inc., and Viacom International, Inc.*

SECURITIES and EXCHANGE COMMISSION, Washington, D.C. (Daniel L. Goelzer, General Counsel, Jacob H. Stillman, Associate General Counsel, Thomas L. Riesenberg, Assistant General Counsel, Leslie E. Smith, Attorney, and Paul Gonson, Solicitor, Washington, D.C., of counsel), *filed a brief for the Securities and Exchange Commission, Amicus Curiae.*

CARDAMONE, *Circuit Judge*:

This appeal deals with a suit brought to recover short-swing profits against insiders which was dismissed in the district court. It is clear from Supreme Court precedent that liability for short-swing trading will not arise unless the securities transactions at issue fall within the literal language of the statute that prohibits over-reaching by insiders. Here plaintiff's standing to bring suit against insiders, rather than such individuals' liability, is the question presented. In resolving this issue the words of the statute must still be carefully examined, but legislative purpose may also be considered where standing is not clearly precluded by the statutory language. Congressional policy is a stubborn thing; it permeates this area of the law. In resolving this case therefore we must not defeat Congress' plain policy by viewing standing too narrowly.

BACKGROUND

Before us is an order of the Southern District of New York (Mukasey, J.), entered November 9, 1988 that granted summary judgment to defendants dismissing plaintiff's complaint for lack of standing. Plaintiff also appeals from an order dated May 23, 1989 denying his Rule 60(b) motion for relief from the November 9, 1988 order. Plaintiff appeals that dismissal of his action brought pursuant to § 16(b) of the Securities Exchange Act of 1934, 15 U.S.C. § 78p(b) (1988). Section 16(b) provides that an owner of an issuer's security may bring an action in behalf of the issuer to recover short-swing profits realized by the corporation's officers, directors and principal stockholders. A "short-swing" profit occurs when a profit is realized on a purchase and sale, or sale and purchase, of stock occurring within a period of six months. The statute requires officers, directors and owners of more than ten percent of the issuer's stock (insiders) to disgorge short-swing profits back to the issuer.

The question presented is whether a shareholder whose shares in an issuer are converted by a business restructuring into shares of a newly formed parent corporation that owns all of the stock of the issuer loses standing to maintain a previously instituted § 16(b) suit. Because we think the answer to the question posed is "no," the grant of summary judgment dismissing plaintiff's suit must be reversed.

FACTS

Plaintiff Ira L. Mendell is a former shareholder of Viacom International Inc. (International). Defendants are limited partnerships, general partnerships, individual partners and certain corporations (Coniston or the Coniston defendants) that together invested in the stock of International. In 1986 defendants collectively owned more than ten percent of its stock. In January 1987 plaintiff filed a complaint alleging that Coniston was liable to International pursuant to § 16(b) for profits arising out of Coniston's purchases and sales of International stock in 1986. Plaintiff asserted that on trades of International stock made between July and October 1986 the Coniston defendants acquired approximately 11 million dollars in short-swing profits at a time when they were insiders by virtue of their ownership of more than ten percent of International stock. The complaint also alleged that in October 1986 a demand was made upon International and its Board of Directors to institute a § 16(b) suit against the Coniston defendants, but that though more than 60 days had passed no suit had been commenced by International.

Approximately six months later, in June 1987, after plaintiff had filed suit, International was acquired through a merger transaction by Arsenal Acquiring Corporation, a shell corporation formed for that purpose. All of International's stock was exchanged for a combination of cash and stock in Arsenal Acquiring's parent corporation called Arsenal Holdings, Inc., and Arsenal Acquiring then merged into International, which thereby became a wholly-owned subsidiary of the parent, Arsenal Holdings. As part of the merger, Arsenal Holdings changed its name to Viacom, Inc. (Viacom). Thus plaintiff, who held shares in International when he brought suit to recover insider profits for the issuer, now holds shares in its parent, Viacom. Viacom is the sole shareholder of International, and International is the parent corporation's sole asset.

At a pretrial conference held in February 1988 defendants asserted that plaintiff no longer had standing to maintain his § 16(b) suit since he was no longer a shareholder of International. In March 1988 plaintiff served an amended complaint asserting that he had standing to bring the action in behalf of Viacom, the parent corporation, which he claimed was effectively the "issuer." Alternatively, he contended that he had standing to bring the action as a double-derivative action in behalf of International. Coniston moved for summary judgment. On November 9, 1988 the district court granted summary judgment to defendants because plaintiff lacked standing, ruling that "[s]uits to disgorge ill-gotten gains under § 16(b) may be prosecuted only by the issuer itself or the holders of its securities." *Mendell v. Gollust*, [1988-89] Fed. Sec. L. Rep. (CCH) ¶ 94,086 at 91,086 (S.D.N.Y. 1988).

On January 9, 1989—after the opinion issued but before the judgment of dismissal was entered on January 17, 1989—plaintiff purchased a subordinated note issued by International. In March 1989 plaintiff made a motion pursuant to Fed. R. Civ. P. 60(b) asserting that he now had standing as a noteholder of International, and that the judgment entered some weeks earlier should be vacated. In an opinion dated May 23, 1989 the district court denied the Rule 60(b) motion stating that counsel's failure to advise his client to purchase the note earlier did not provide grounds to overturn the judgment. *See Mendell v. Gollust*, [Current Volume] Fed. Sec. L. Rep. (CCH) ¶ 94,477 (S.D.N.Y. 1989).

We heard oral argument on November 21, 1989, and on November 28 requested the Securities and Exchange Commission (SEC) to submit an *amicus curiae* brief setting forth its views on plaintiff's standing under § 16(b). We now have the benefit of the SEC's *amicus curiae* brief filed on January 10, 1990.

DISCUSSION

I Section 16(b)

A. *Policy Considerations and Legislative Purpose*

In order to determine how broadly § 16(b)'s standing requirements should be construed, we begin with a brief examination of the policy considerations and the legislative purpose that preceded the enactment of the statute. The Securities Act of 1934 in general and § 16(b) in particular were passed to insure the integrity of the securities markets and to protect the investing public. *See* 15 U.S.C. § 78p(b) (1988); Federal Securities Exchange Act of 1934, S. Rep. No. 792, 73d Cong., 2d Sess. 9 (1934) [*Senate Report*]; 2 L. Loss, *Securities Regulation* 1037-38, 1040-41 (2d ed. 1961).

The Committee on Banking and Currency heard many instances where insiders either personally or through the medium of holding companies made large profits from the use of information not available to the public. *Senate Report* at 9. It concluded that the reporting requirements regarding changes in insider holdings and the provision making profits recoverable on sales or purchases made within six months would render difficult or impossible trading on advance information by insiders for profit. *Id.* The bill's provisions were for the express purpose of preventing the unfair use of inside information. *Id.* at 21.

> Among the most vicious practices unearthed at the hearings before the subcommittee was the flagrant betrayal of their fiduciary duties by directors and officers of corporations who used their positions of trust and the confidential information which came

to them in such positions, to aid them in their market activities.

Stock Exchange Practices, Report of the Committee on Banking and Currency, S. Rep. No. 1455, 73d Cong., 2d Sess. 55 (1934). Hence, Congress envisioned § 16(b) as a remedial law that would deter those "intrusted with the administration of corporate affairs or vested with substantial control over corporations [from using] inside information for their own advantage." *Id.* at 68.

B. *Judicial Construction of § 16(b)*

Since its passage the Supreme Court has construed § 16(b) in a number of cases. In the earliest, *Blau v. Lehman*, 368 U.S. 403 (1962), it refused to hold an entire partnership liable for short-swing profits as an insider when one of its members was a director of the issuer because the plain language of § 16(b) did not provide for partnership liability, though the director was susceptible to suit in his individual capacity for the profits he realized. *Id.* at 411-14. In *Kern County Land Co. v. Occidental Petroleum Corp.*, 411 U.S. 582 (1973), a tender-offeror that purchased more than ten percent of the stock of Kern County Land Co. had its shares of Kern converted into new Tenneco stock when Tenneco merged with Kern in a defensive transaction. The tender-offeror negotiated a contract to sell to Tenneco the shares it would receive after the merger. Writing that traditional cash-for-stock purchases fall within § 16(b), but that certain "unorthodox" transactions are not so easy to resolve, the Court observed that these "borderline" transactions are within the statute's reach if they are a vehicle promoting the evil Congress sought to prevent. *Id.* at 593-94. The Court noted that the transaction in question was not based on a statutory insider's information and therefore was not vulnerable to the speculative abuse barred by § 16(b), and held that neither the exchange of shares in the merger nor the execution of the option contract constituted a "sale" under § 16(b). *See id.* at 600-01.

In *Reliance Electric Co. v. Emerson Electric Co.*, 404 U.S. 418 (1972), Emerson Electric, a holder of more than ten percent of Dodge Manufacturing Co., made two sales of stock within six months after purchasing it, the first of which reduced its holdings to less than ten percent. The question was whether the profits from the second sale, made within six months of its purchase but not while Emerson was a ten percent holder, were recoverable by the corporation under § 16(b). In holding that they were not, the Supreme Court observed that a ten percent owner must under the statute be such " 'both at the time of the purchase and sale . . . of the security involved,' " 15 U.S.C. § 78p(b), and since Emerson Electric was not such an owner at the time of the second sale, the method it had used to avoid liability was one permitted by the statute. 404 U.S. at 422-23. The Court reasoned that, because liability under the statute is predicated upon objective proof, a trader's intent and/or motive is irrelevant and hence, Emerson Electric was not liable under § 16(b). *Id.* at 425. In *Reliance* the statutory language was clear; only where differing constructions of § 16(b)'s terms are possible may a court interpret the statute in a way that serves Congress' purpose. *Id.* at 424. Here, we are faced with the latter scenario.

C. *Broad Interpretation of § 16(b)*

When the statute permits interpretation the section traditionally has been read broadly in view of its remedial purposes. The disgorgement provision is aimed at deterring insider trading by removing the profits from "a class of transactions in which the possibility of abuse [is] believed to be intolerably great." *Id.* at 422. The statute presumes that insiders in a company have access to nonpublic information regarding its operation and will use that information when trading in the issuer's stock, and thus proof of the actual use of such inside information is not required. *See Foremost-McKesson, Inc. v. Provident Sec. Co.*, 423 U.S. 232, 243, 251 (1976); *Reliance Elec.*, 404 U.S. at 422; *Smolowe v. Delendo Corp.*, 136 F.2d 231, 235-36 (2d Cir.), *cert. denied*, 320 U.S. 751 (1943).

We and most other courts have adopted a "pragmatic" approach, construing § 16(b) in a manner that seems most consistent with Congress' purpose. *See Kern County Land Co.*, 411 U.S. at 594 ("the courts have come to inquire whether the transaction may serve as a vehicle for the evil which Congress sought to prevent"); *Reliance Elec.*, 404 U.S. at 424 ("where alternative constructions of the terms of § 16(b) are possible, those terms are to be given the construction that best serves the congressional purpose of curbing short-swing speculation by corporate insiders."); *Feder v. Martin Marietta Corp.*, 406 F.2d 260, 262 (2d Cir. 1969) (courts interpret § 16(b) in ways most consistent with legislative purpose "even departing where necessary from the literal statutory language."), *cert. denied*, 396 U.S. 1036 (1970).

II Standing Under § 16(b)

A. *Broadly Construed*

To effectuate its purposes the statute permits "the owner of any security of the issuer" to bring suit in behalf of the corporation. 15 U.S.C. § 78p(b). Such person may institute a § 16(b) claim in behalf of the issuer if the latter fails to bring suit after the stockholder so requests. *See id.* Because such a suit is not brought in his own, but rather the corporation's behalf, § 16(b)'s standing requirements have been given wide latitude. *See Pellegrino v. Nesbit*, 203 F.2d 463, 466 (9th Cir. 1953); *see also Prager v. Sylvestri*, 449 F. Supp. 425, 429 (S.D.N.Y. 1978) (demand requirement of § 16(b) exists for benefit of the issuer; defendant insider may not assert lack of demand as a defense.). A § 16(b) plaintiff performs a public rather than a private function and is seen as an instrument for advancing legislative policy. *See Magida v. Continental Can Co.*, 231 F.2d 843, 846-47 (2d Cir.), *cert. denied*, 351 U.S. 972 (1956).

The standing requirements for shareholder derivative suits are not applicable to a § 16(b) plaintiff. *See Blau v. Mission Corp.*, 212 F.2d 77, 79 (2d Cir.), *cert. denied*, 347 U.S. 1016 (1954); *Rothenberg v. United Brands Co.*, [1977-78] Fed. Sec. L. Rep. (CCH) ¶ 96,045 at 91,691-92 (S.D.N.Y.); *aff'd mem.*, 573 F.2d 1295 (2d Cir. 1977); 2 L. Loss, *Securities Regulation* at 1045-47. Generally a derivative plaintiff must be a shareholder at the time of the transaction of which he complains, the action must not be a collusive one to confer federal jurisdiction, and the complaint must allege with particularity the efforts made to obtain the desired action. *See* Fed. R. Civ. P. 23.1. In contrast, in a ment purpose, but also can be expected to secure the same results as those obtained when a fox guards a chicken coop. Concededly, some protection against insider abuse may still be available through a stockholder's derivative suit for breach of fiduciary duty. Yet such a suit is not as effective as a § 16(b) claim because shareholders are subject to the already noted more stringent standing requirements of Rule 23.1, and, in addition, the complaint may be countered with subjective considerations of intent or good faith, such as a business judgment defense. *Cf. Oppenheim*, 250 F. Supp. at 887.

Moreover, the SEC endorses the view that the policy of § 16(b) is best effectuated by allowing plaintiff to maintain this suit. *See* Ownership Reports and Trading By Officers, Directors and Principal Stockholders, Securities Exchange Act Rel. No. 26333 (Dec. 2, 1988), 42 SEC Docket 570, 53 Fed. Reg. 49997 (Dec. 13, 1988) [SEC Rel. No. 26333]. Although not binding on us, the SEC's insights in construing securities laws are entitled to consideration. *See Basic Inc. v. Levinson*, 485 U.S. 224, 239 n.16 (1988); *TSC Indus., Inc. v. Northway, Inc.*, 426 U.S. 438, 449 n.10 (1976).

Proposed SEC Rule 16a-1(h) would specifically define "owner" of a security as either a current beneficial owner of securities of the issuer at the time suit was filed *or* a former beneficial owner who was compelled to relinquish his holdings as a result of a business combination. *See* SEC Rel. No. 26333. While the proposed rule is inapplicable in the case at hand, *cf. Mayer v. Chesapeake Ins. Co.*, 877 F.2d 1154, 1162 (2d Cir. 1989), *cert. denied*, 110 S. Ct. 722 (1990), it reflects the strength of the SEC's convictions.

§ 16(b) suit the complaining stockholder need not have held his securities at the time of the objectionable transaction. *See Blau v. Mission Corp.*, 212 F.2d at 79. Suit may be brought by the holder of any of the issuer's securities—equity or debt—regardless of whether the security held is of the same class as those subject to disgorgement as short-swing profits. *See* 15 U.S.C. § 78p(b); *Smolowe*, 136 F.2d at 241; 2 L. Loss, *Securities Regulation* at 1046. Further, the amount or value of a plaintiff's holdings or his motives for bringing suit are not relevant. *See Magida*, 231 F.2d at 847-48.

In keeping with the general rules of § 16(b) analysis, the question of whether a plaintiff has standing to bring suit is, in part, determined by whether the policy behind the statute is best served by allowing the claim. Thus, in *Blau v. Oppenheim*, 250 F. Supp. 881 (S.D.N.Y. 1966) (Weinfeld, J.), the district court permitted a shareholder of a *parent corporation* to bring a § 16(b) suit on behalf of its issuer-subsidiary. There the company that issued the stock that was traded in contravention of the statute was dissolved in a merger. The court reasoned that where the issuer is merged out of existence, none of the original shareholders are left to bring suit. *Id.* at 886. A holding that would allow only the shareholders of the now defunct issuer to remedy the statutory violation would therefore make the statute unenforceable. *See id.* at 886-87; *see also Portnoy v. Kawecki Berylco Indus. Inc.*, 607 F.2d 765, 768 (7th Cir. 1979). In order to avoid a result that was contrary to the purpose of the statute the court interpreted the word "issuer" to include the parent corporation. *Oppenheim*, 250 F. Supp. at 884.

Defendants urge that we limit *Oppenheim* to permit a shareholder of a parent corporation to maintain a § 16(b) suit with respect to the subsidiary's stock only when the original issuer did not survive a merger into the subsidiary. They contend that when the issuer survives the merger as a viable corporate entity enforcement of the statute by the issuer or by its shareholder, the parent corporation, is still available. We disagree with defendants' rationale; it would have been equally applicable to *Oppenheim* because there the § 16(b) claim could have been brought by the issuer's survivor or by its shareholder, the parent corporation, yet the court did not restrict standing to those entities. The plaintiff in *Oppenheim* actually had less claim to standing than the plaintiff in the instant case, because in *Oppenheim* the plaintiff never held shares in the original issuer, but purchased shares in the parent only after the merger. Further, we do not rely on the interpretation of "issuer" set forth in *Oppenheim*, but focus instead on whether a security holder loses his standing as an "owner" of securities when his stock is involuntarily converted in a merger.

The probability that the statute will not be enforced is present to the same degree when the original issuer survives the merger as a wholly-owned subsidiary of the parent corporation as it was in *Oppenheim*. In such circumstance no public shareholders remain to bring an action. As a practical matter it is unrealistic to believe that the issuing corporation will bring an action against itself or its insiders. *See Rothenberg*, [1977-78] Fed. Sec. L. Rep. ¶ 96,045 at 91,691; *cf. Lewis v. McAdam*, 762 F.2d 800, 802 (9th Cir. 1985) (per curiam); *Magida*, 231 F.2d at 846. Leaving insiders to police themselves is not only contrary to § 16(b)'s private shareholder enforce-

B. *Standing Not Barred by Existing Law*

Defendants and the dissenting opinion assert it is "settled law" that a security holder who commences a § 16(b) suit must remain a security holder throughout the litigation and if he ceases to own the securities he loses his standing to continue the action. *See Untermeyer v. Valhi, Inc.*, 665 F. Supp. 297 (S.D.N.Y. 1987), *aff'd mem.*, 841 F.2d 1117 (2d Cir.), *aff'd on rehearing*, 841 F.2d 25 (2d Cir.) (per curiam), *cert. denied*, 109 S. Ct. 175 (1988); *Rothenberg*, [1977-78] Fed. Sec. L. Rep. (CCH) ¶ 96,045; *see also Lewis*, 762 F.2d 800; *Portnoy*, 607 F.2d 765; *Staffin v. Greenberg*, 509 F. Supp. 825, 840 (E.D. Pa. 1981), *aff'd on other grounds*, 672 F.2d 1196 (3d Cir. 1982). That conclusion is not mandated either by the statutory language or by the cited cases.

First, the language of the statute speaks of the "owner" of securities; but such language is not modified by the word "current" or any like limiting expression. The statute does not specifically bar the maintenance of § 16(b) suits by former shareholders and Congress, had it so desired, could readily have eliminated such individuals as plaintiffs. The broad meaning of the word owner better accords with the remedial purpose of the statute. Second, although some decisions have denied standing to a § 16(b) plaintiff on the grounds that he is not a current security holder, those cases are distinguishable. The district court, for example, relied upon *Untermeyer v. Valhi, Inc.*, which dealt with a plaintiff who owned stock of the parent corporation, but who never owned stock of the company that issued the shares traded in contravention of § 16(b). 665 F. Supp at 298. Thus, even without a merger the *Untermeyer* plaintiff would not have had standing. In contrast, plaintiff here brought a valid § 16(b) suit while he was a current shareholder of the issuer, and *but for* the merger standing would not be in issue here.

In *Rothenberg v. United Brands Co.*, also cited by the district court, the shareholders received cash in the merger instead of securities. The crucial factor considered by the trial court was that in a cashout merger the former shareholders maintain no continuing financial interest in the litigation. *See Rothenberg*, [1977-78] Fed. Sec. L. Rep. (CCH) ¶ 96,045 at 91,692. In the present case all former International shareholders obtained, as a result of the merger, shares of International's parent corporation, and plaintiff, as one of them, continues to have at least an indirect financial interest in the outcome of this lawsuit. Two additional reasons caution against an overbroad application of *Rothenberg*: That decision noted that even if plaintiff had standing the § 16(b) claim failed on the merits, *see id.* at 91,693-94; and the court's standing analysis was premised on an analogous application of Rule 23.1 which, as noted above, does not govern shareholders bringing § 16(b) claims. *Id.* at 91,691-92.

Contrary decisions of our sister circuits are similarly distinguishable. *See Lewis*, 762 F.2d at 801 (plaintiff shareholder of parent but never held stock in the issuer or its surviving subsidiary); *Portnoy*, 607 F.2d at 767-68 (cashout merger left plaintiff with no continuing financial interest in the litigation; plaintiff's alternative status as a shareholder in the grandparent corporation gave no standing for § 16(b) suit on behalf of the issuer). In the case at bar, the conversion of International stock into Viacom stock presents a novel situation where former shareholders have a continuing interest in maintaining suit in behalf of the issuer. We conclude, therefore, that under those unique circumstances the cases cited by defendants are neither controlling nor persuasive.

Here plaintiff's suit was timely, and while his § 16(b) suit was pending he was involuntarily divested of his share ownership in the issuer through a merger. But for that merger plaintiff's suit could not have been challenged on standing grounds. Although we decline—in keeping with § 16(b)'s objective analysis regarding defendants' intent—to inquire whether the merger was orchestrated for the express purpose of divesting plaintiff of standing, we cannot help but note that the incorporation of Viacom and the merger proposal occurred after plaintiff's § 16(b) claim was instituted. Hence, the danger of such intentional restructuring to defeat the enforcement mechanism incorporated in the statute is clearly present.

Quite plainly, a rule that allows insiders to avoid § 16(b) liability by divesting public shareholders of their cause of action through a business reorganization would undercut the function Congress planned to have shareholders play in policing such actions. *See Oppenheim*, 250 F. Supp. at 887; SEC Rel. No. 26333.

Permitting plaintiff to maintain this § 16(b) suit is not barred by the language of the statute or by existing case law, and it is fully consistent with the statutory objectives. The grant of summary judgment must therefore be reversed. If it is established that profits were realized in contravention of the statute they should be disgorged to International. The section is designed to protect fairness interests, not provide compensatory relief. The result we reach will adequately protect the former International shareholders who now own International indirectly as shareholders of Viacom. *Cf. American Standard, Inc. v. Crane Co.*, 510 F.2d 1043, 1060-61 (2d Cir. 1974), *cert. denied*, 421 U.S. 1000 (1975).

Because the plaintiff has standing under § 16(b), we do not reach the district court's rejection of plaintiff's standing argument based upon an alleged "double derivative" action. *See Mendell*, [1988-89] Fed. Sec. L. Rep. (CCH) ¶ 94,086 at 91,087.

III Plaintiff's Standing as a Noteholder Under Fed. R. Civ. P. 60(b)

In light of our reversal of the November 9, 1988 order and subsequent judgment of dismissal gives plaintiff his requested relief, plaintiff's appeal of the motion brought pursuant to Rule 60(b) is to some extent mooted. Nevertheless, we write to affirm the district court's denial of the Rule 60(b) motion in order to emphasize that plaintiff's purchase of a senior subordinated note of International did not provide grounds to vacate the district court's initial order.

The relevant portions of Rule 60(b) provide that "upon such terms as are just, the court may relieve a party . . . from a final judgment [or] order . . . for the following reasons: (1) mistake, inadvertence, surprise, or excusable neglect; . . . or (6) any other reason justifying relief from the operation of the judgment." Fed. R. Civ. P. 60(b). Motions under Rule 60(b) are addressed to the sound discretion of the district court and are generally granted only upon a showing of exceptional circumstances. *Nemaizer v. Baker*, 793 F.2d 58, 61 (2d Cir. 1986).

Plaintiff argues that he purchased the International note "as soon as it occurred to plaintiff's counsel (1) that any security holder of International could maintain a 16(b) action *and* (2) that notes of International were available to be purchased." We agree with the district court that counsel's ignorance of the law on this point cannot form the basis for relief under subdivision (1) of Rule 60(b). *See id.* at 62-63. Nor can we say that the district court abused its discretion when it denied relief under subdivision (6) of Rule 60(b). Plaintiff's acquisition of a note following an adverse ruling on his claim to standing as a shareholder did not present the kind of "extraordinary" circumstance that mandates relief to avoid an "extreme and undue hardship." *See Ackermann v. United States*, 340 U.S. 193, 199 (1950); *Matarese v. LeFevre*, 801 F.2d 98, 106 (2d Cir. 1986), *cert. denied*, 480 U.S. 908 (1987).

As a noteholder of International, plaintiff clearly has standing to bring a § 16(b) claim in International's behalf. *See* 15 U.S.C. § 78p(b). Yet his newly acquired noteholder status does not afford grounds to vacate an order premised on his status as a former shareholder.

CONCLUSION

The district court's order entered May 24, 1989 is affirmed. Its order entered November 9, 1988 and the subsequent judgment of dismissal entered January 17, 1989 are reversed and the case is remanded to the district court for further proceedings consistent with this opinion.

MILTON POLLACK, *Senior District Judge*, dissenting:

The majority's ruling departs from the unequivocal terms of the statute to be administered and from the prior case law of this Court applying the statute, and it conflicts with rulings of the other Circuits which have addressed the requirements of the statute, § 16(b) of the Securities Exchange Act of 1934, 15 U.S.C. § 78p(b).

A corporate merger during the pendency of this suit has sparked the judicial controversy presented to this Court.

Plaintiff was the owner of stock issued by International (Viacom International Inc.) at the time he filed this suit. He seeks to recover short-swing profits of beneficial owners of more than 10% of the stock of International. During the pendency of the suit, the plaintiff ceased being an owner of International stock as the result of a corporate merger. The defendants then moved, successfully, to dismiss the complaint. That dismissal is on appeal to this Court.

International had been organized as a wholly-owned subsidiary of CBS Inc. for the purpose of owning the television program distribution and cable television businesses of CBS. The CBS interest in International was distributed to the CBS stockholders on a pro rata basis. Some time later, Arsenal Holdings Inc. ("Holdings") was organized for the purpose of acquiring International in a merger transaction which had a business purpose. A wholly-owned subsidiary of Holdings was merged with and into International, and, as a result of the merger, International remained a viable corporate entity but became an indirect, wholly-owned subsidiary of Holdings. Holdings changed its name to Viacom, Inc.

("Viacom"). Each share of Viacom stock, including plaintiff's stock, was converted into the right to receive (i) \$ 43.20 and (ii) certain percentages of preferred and common stock of Viacom.[1] Plaintiff accepted the conversion and received cash and Arsenal Holdings (now called "Viacom") stock in the exchange.

Refined to simpler understanding of the implication of the corporate merger, it appears that the plaintiff ceased to be a shareholder of International; he had exchanged his holdings in the issuer, International, for cash and preferred and common stock of Arsenal Holdings Inc., which had become the 100% owner of International in the merger. Under the merger exchange the previously outstanding stock of International was cancelled, including plaintiff's shares. In this state of affairs, under the explicit language of § 16(b), the right to bring a § 16(b) suit on behalf of International, the issuer, was limited to either International, the original issuer, or Viacom, its new sole stockholder.

Thus the grounds of difference between the majority of the Court and this dissent are that the plaintiff no longer satisfies the plain statutory requirement—ownership of securities of the issuer.

Prior to the holding of the majority herein, it was axiomatic that an "owner of any security of the issuer" must continue to be a stockholder of the issuer throughout a § 16(b) lawsuit. *See Herrmann v. Steinberg*, 812 F.2d 63, 67 n.4 (2d Cir. 1987) ("As a threshold matter . . . plaintiffs must establish that they have been . . . shareholders *throughout* this litigation."); *Rothenberg v.*

1 Excluded from the conversion were dissenting shares and shares held by Viacom, by International, or by a subsidiary of Viacom.

posed rules would provide standing to the former public shareholders whose equity securities have been acquired in a business combination or similar corporate transaction over which the individual shareholder has no control."); Ownership Reports and Trading by Officers, Directors and Principal Security Holders, 54 Fed. Reg. 35667 at 35678 (Aug. 29, 1989) ("In response to comment received, the Commission reproposes a more limited definition. The revised proposed definition would extend standing only to former security holders who had filed suit before surrendering their securities.").[2]

The majority of this Court, as well as the SEC, point to the fact that plaintiff is now a shareholder of the parent corporation, Viacom, as further support for the plain extension of the scope of the statute, citing *Blau v. Oppenheim*, 250 F. Supp. 881, 884 (S.D.N.Y. 1966). Reliance on *Blau*, however, is misplaced; it was factually, materially, different. In *Blau*, the issuer was merged out of existence, leading to the argument there made that if a successor was not permitted to sue under § 16(b) no other party would be available to vindicate the policy of the statute. 250 F. Supp. at 886. In the

2 Certainly, the proposed rules do not govern this case, *see Mayer v. Chesapeake Ins. Co.*, 877 F.2d 1154, 1162 (2d Cir. 1989) ("[t]hough the Commission has recently proposed a new rule . . . which would extend § 16(b) liability . . ., thereby changing existing law, . . . the proposed rule does not govern the present case."), *cert. denied*, 58 U.S.L.W. 3427 (1990), although the majority urges that they be given persuasive weight. *See Basic Inc. v. Levinson*, 485 U.S. 224, 239 n.16 (1988) ("The SEC's insights [regarding the materiality standard under Rule 10b-5] are helpful, and we accord them due deference."). In *Piper v. Chris-Craft Indus., Inc.*, 430 U.S. 1, 41 n.27 (1977), the Supreme Court observed, however, that "[the SEC's] presumed 'expertise' in the securities-law field is of limited value when the narrow legal issue is one peculiarly reserved for judicial resolution, namely whether a cause of action should be implied by judicial interpretation in favor of a particular class of litigants."

present case, however, ownership of the issuer passed to Viacom, and Viacom, as the sole shareholder of the issuer, remained in position, if need be, to vindicate the purpose of the statute to pursue recovery of short-swing profits of an insider.

The infirmity of *Blau* is highlighted by a careful study of the facts there presented; these were:

Oppenheim was a director of Van Winkle, a listed company, who engaged in short swing transactions and was thus subject to § 16(b) liability at the instance of security holders of Van Winkle. Plaintiff was not an owner of any security of Van Winkle at any time during its existence. Van Winkle was dissolved in its merger into M & T Chemicals, Inc., and all its assets were transferred to M & T in exchange for stock in American Can Co. Blau thereafter bought stock in American Can which, by then, owned 100% of the stock of M & T. Blau sued Oppenheim as a director of Van Winkle under § 16(b) purporting to act as the "owner of any security of the issuer." The District Judge sustained the claim of Blau, a stockholder of American Can, against Oppenheim for short-swing transactions in stock of Van Winkle on a theory that Van Winkle's assets were now in M & T. However, American Can was the stockholder of M & T, not Blau, but this was passed over by the District Judge. To effectuate the conceived purpose of § 16(b), only American Can should have been accorded status to sue, not Blau. The decision of the District Judge was never reviewed or analyzed by appeal. The public policy arguments pressed in *Blau* could only be made by ignoring the obligatory statutory requirement of stock ownership in the issuer. *Blau* granted standing to a non-owner, rather than to American Can itself, the sole holder of a security of the successor to Van Winkle.

Blau was mentioned by this Circuit and contrasted with *Untermeyer v. Valhi, Inc.*, 665 F. Supp. 297 (S.D.N.Y. 1987), *aff'd mem.*, 841 F.2d 1117 (2d Cir.), *aff'd on reh'g*, 841 F.2d 25, 25 (2d Cir.) ("In *Blau* the issuer had been merged out of existence. . . . [and] the short swing-profits illegally gained would never have been recovered. In contrast, the issuer here, Sea-Land, survived the merger and remains a viable corporate entity. Because Sea-Land remains a viable corporate entity, it or its shareholder, CSX [the parent], can bring an action under section 16(b) to recover the short-swing profits allegedly gained.") (citations omitted), *cert. denied*, 109 S. Ct. 125 (1988). That comment is directly apposite here.

Two other circuit courts which have addressed this issue have refused to extend the statutory qualification to former shareholders of the issuer either when the issuer remains a viable corporate entity, *see Portnoy*, 607 F.2d at 769 (7th Cir. 1979), or when the issuer was merged out of existence. *See Lewis v. McAdam*, 762 F.2d 800, 804 (9th Cir. 1985) (per curiam) ("We hold that where a corporation is merged out of existence by the wholly owned subsidiary of another corporation, the parent corporation is not an 'issuer' within the meaning of section 16(b). Similarly, a shareholder of the parent corporation cannot be considered an 'owner of any security of the issuer' and accordingly lacks standing to bring a section 16(b) action.").

The SEC itself recognizes that qualifying former shareholders to sue, either judicially or by rule-making, is a marked departure from the pre-existing jurisprudence under § 16(b). *See* 53 Fed. Reg. at 50013 ("Currently, the plaintiff is required to hold these shares [in the issuer] throughout the legal process.") (citing *Portnoy, supra.*); *Id.* ("Where the issuer continues to exist as a wholly-owned subsidiary, . . . the courts have uniformly denied standing to former shareholders and shareholders of the parent.") (citing *Untermeyer, infra*; *Lewis, supra*; *Portnoy, supra.*).

It is a frequently stated principle of statutory construction that when legislation expressly provides a particular remedy or remedies, courts should not expand the coverage of the statute to subsume other remedies. *See National Railroad Passenger Corp. v. National Assoc. of Railroad Passengers*, 414 U.S. 453, 458 (1974). "When a statute limits a thing to be done in a particular mode, it includes the negative of any other mode." *Botany Mills v. United States*, 278 U.S. 282, 289 (1929). In short, the remedies created in § 16(b) are the exclusive means to enforce the obligation imposed by the Act. *Nat'l Railroad Passenger Corp.*, 414 U.S. at 458.

Congress simply has not delegated to the courts the authority to qualify a "former" owner as an "owner of any security of the issuer." While I agree with the statement in *Blau*, 250 F. Supp. at 884, that "[t]he courts, particularly in our circuit, have consistently interpreted section 16(b) in 'the broadest possible' terms in order not to defeat its avowed objective," the case authorities have also taught that: "We have no constitutional authority to rewrite a statute simply because we may determine that it is susceptible of improvement." *Lewis v. McAdam*, 762 F.2d 800, 804 (9th Cir. 1985) (citing

Badaracco v. Commissioner, 464 U.S. 386, 398 (1984)); *see also*, *Badaracco*, 464 U.S. at 401 ("If the result contended for by petitioner is to be the rule, Congress must make it so in clear and unmistakable language."); *TVA v. Hill*, 437 U.S. 153, 194 (1978) ("Our individual appraisal of the wisdom of a particular course consciously selected by the Congress is to be put aside in the process of interpreting the statute."); *Blau v. Lehman*, 368 U.S. 403, 411 (1962) ("Congress is the proper agency to change an interpretation of the [1934] Act unbroken since its passage, if the change is to be made."); *Untermeyer v. Valhi*, 665 F. Supp. 297, 300 (S.D.N.Y. 1987) ("the statutory language may not be strained or distorted to add to the 'prophylactic' effect Congress itself clearly prescribed in § 16(b)"), *aff'd mem.*, 841 F.2d 1117 (2d Cir.), *aff'd on reh'g*, 841 F.2d 25 (2d Cir.), *cert. denied*, 109 S. Ct. 125 (1988).

The statute unambiguously states that "the owner of any security of the issuer" may sue to recover short-swing profits that are recoverable by the issuer under § 16(b). There is simply no indication in any of the legislative history of § 16(b) that the plain meaning of the words "owner of any security of the issuer" was meant to include or even could include one who is no longer the owner of any security of the issuer. Nor is there anything in the legislative history from which to believe "that the plain meaning of the statutory language is inadequate to effect the congressional purpose of providing an enforcement mechanism against insider trading. That a merger may result in a corporation succeeding to an action formerly held by an individual is a consequence dictated by the statute." *Lewis*, 762 F.2d at 804. Certainly, Congress has had ample opportunity to amend § 16(b) had it so desired.[3]

Further, the narrow private cause of action granted by § 16(b) militates strongly against our attributing to Congress a willingness to allow a more expansive enforcement of the statute. The remedy encompasses not former stockholders of the issuer but only stockholders. As did the Seventh Circuit, we should "reject the plaintiff's invitation to draft 'judicial legislation' to grant him standing." *Portnoy*, 607 F.2d at 768.

Accordingly, I would affirm the order and judgment appealed from.

3 Several times in the past decade or so Congress has legislated amendments to the 1934 Act. *See e.g.*, Insider Trading and Securities Fraud Enforcement Act of 1988, Pub. L. No. 98-376, 98 Stat. 1265 (1988); Shareholder Communications Act of 1985, Pub. L. No. 99-222, 99 Stat. 1737 (1985); Insider Trading Sanctions Act of 1984, Pub. L. No. 98-376, 98 Stat. 1264 (1984); Foreign Corrupt Practices Act of 1977, Pub. L. No. 95-213, 91 Stat. 1494 (1977); Domestic & Foreign Investment Improved Disclosure Act of 1977, Pub. L. No. 95-213, 91 Stat. 1498 (1977).

Exhibit 14

Letter Dated May 21, 1992,
Alan D. Sugarman,
HyperLaw, Inc. to
James E. Schatz,
Opperman Heins Paquin.

HyperLaw™

Via Facsimile 612-339-0981

May 21, 1992

Mr. James E. Schatz
Opperman Heins & Paquin
2200 Washington Square
100 Washington Avenue South
Minneapolis, Minnesota 55401

Dear Mr. Schatz:

Last summer and fall we exchanged letters concerning attempts by HyperLaw, Inc. to determine the nature of West Publishing Company's copyright claims and HyperLaw's desire to publish CD-ROM's of judicial decisions. In addition to being counsel for HyperLaw, I am also its President.

In February, 1992 HyperLaw published a CD-ROM containing the opinions of the United States Supreme Court for the 1990-1991 term. This was the first CD-ROM ever published that contained a comprehensive set of Supreme Court Opinions.

Because West's letter to HyperLaw states that HyperLaw should obtain West's permission to use West material and "If you [HyperLaw] proceed in any other way, you do so at your own risk" (and because we had learned of West litigation which had bankrupted a Nebraska CD-ROM publisher and its owners), HyperLaw proceeded to produce its product independently of reference to any West publications. As a result, HyperLaw's CD-ROM product is not citable by legal writers who comply with the Bluebook.

In order to attempt to determine the West position on its copyrights, we have reviewed recent testimony and submissions by West to the Subcommittee on Intellectual Property and Judicial Administration of the House Committee on the Judiciary ("House Subcommittee") and to the Library Program Subcommittee of the United States Judicial Conference Committee on Automation and Technology ("Judicial Conference Subcommittee").

We have also reviewed specifically the testimony of the Registrar of Copyrights before the House Subcommittee which we feel supports the positions taken by us previously regarding the Feist and Mead decisions.

HyperLaw currently is planning new CD-ROM products including a CD-ROM for the 1991-1992 Supreme Court term. We wish to include certain decisional and citation material and are again attempting to determine West's position so that we do not violate its legitimate copyrights.

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Definitions

The terms "case cite", "jump-cite", "pinpoint citation", and "star pagination" are not used consistently and do not appear to have precise generally agreed upon meanings.

This confusion is probably the source of Mr. Vance Opperman's complaint on page 21 of his Prepared Statement of May 14, 1992, to the House Subcommittee that the Mead decision has been misinterpreted. He then states:

> Moreover, West has not -- and does not -- object to others using so-called "jump-cites" -- such as "681 F. Supp. 1228, 1230"...

Unfortunately, the Mead court equated "jump cite" with both "star pagination" and "pinpoint citation". 799 F.2d 1219, 1222. Thus, the reasons for the confusion may lie in the confused use of language by the Mead court.

It is our understanding that a pinpoint location is the interior reference to pages or paragraphs or other points within a decision. A pinpoint citation cites to the pinpoint location. In this sense, a jump cite would be the same as a pinpoint citation. Then, there is "star pagination" which apparently was a feature offered by Lexis to insert the West "pinpoint" locations in the Lexis text.

In order to avoid confusion in this letter, we will adopt the following definitions:

> **Case citation.** The citation to the volume and initial page location (or a case number) of a particular decision, for example, Mead, 799 F.2d 1219.
>
> **Pinpoint location.** An interior location within a decision such as a page break, beginning of a paragraph, or other abitrary segment break.
>
> **Pinpoint Citation.** A reference (that may be contained in an article, case, or brief) to a "pinpoint location" in a decision. Most writers seem to use this as a synonym for "jump cite". For example, 799 F.2d 1219, 1222.

Star-pagination. A scheme or system indentifying or marking pinpoint locations (usually page numbers) located in another published version of the same decision. This phrase apparently was coined by Lexis to describe its insertion of West interior page numbers in Lexis' text.

In your response, please indicate if you utilize different meanings for these terms.

Inclusion of Parallel Case Citation to the Supreme Court Reporter

Because of fear of litigation by West, HyperLaw's 1990-1991 Supreme Court CD-ROM did not include for each published opinion the parallel citations to the case citation (volume and first page) of those same opinions as published in the West Supreme Court Reporter. As a result, the commercial viability of the product was reduced. The Bluebook requires legal writers to cite to the Supreme Court Reporter for Supreme Court opinions that do not yet have the official United States Reports (U.S.) citation. The U.S. citations are not available until two years after the opinions are decided.

Thus, for the 116 opinions included on the 1990-1991 CD-ROM, HyperLaw did not insert the parallel citation to the volume and first page of the opinion where it would be found in Supreme Court Reporter.

We have reviewed the testimony of Dwight D. Opperman, President of West, before the Judicial Conference Subcommittee on September 13, 1991. The following colloquy appears at page 78 (emphasis added):

> JUDGE KELLEY: There would be a licensing fee for using that cite, for putting the volume and page number? If that were added to the electronically recorded opinion.
>
> MR. OPPERMAN: No. People can use our Reporter citations at the beginning of the page. There is no license fee for that.
>
> JUDGE KELLEY: If the court, for example, posted its cases electronically, and before it took them off the board, it applied a volume and page number from West, that would be all right?
>
> MR. OPPERMAN: Yes.

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We interpret this testimony to mean that West does not claim that its copyrights would be infringed were HyperLaw to insert the West case citations from Supreme Court Reports at the beginning of each of the opinions reproduced in HyperLaw's complete compilation of all of the opinions for the 1990 and 1991 terms.

Vance Opperman at page 21 in his Prepared Statement to the House Subcommittee of May 14, 1992 stated that "Neither does West claim that its citations -- such as '681 F. Supp. 1228' -- are in and of themselves copyrightable." Vance Opperman does not explain what he means by "in and of itself", and, certainly, Dwight Opperman did not so qualify his answer to Judge Kelley.

Thus the Oppermans remain unclear -- we are not sure whether West position is (a) that it has no copyright in the case citation(volume and first page citation), (b) that it has a copyright, but considers use of the case citation as "fair use", or (c) that it has a copyright but has dedicated the copyright to the public domain. No clue is provided by West's copyright notice. It is our reading, however, that Mr. Opperman testified to Judge Kelley that West does not claim a copyright in the volume and first page citation, i.e. the case citation, even if those citations were used in a comprehensive and complete compilation.

Would you please confirm that (a) West claims no copyright in the case citation, (b) therefore HyperLaw may insert the Supreme Court Reporter case citation at the beginning of each opinion to be published on a CD-ROM in a complete and comprehensive collection of the 1990 and 1991 United States Supreme Court opinions, and (c) by so doing, HyperLaw would not infringe any copyright or other interest of West.

Use Of Supreme Court Reporter Pinpoint Locations -- Star Pagination

Our second question relates to use by HyperLaw of Supreme Court Reporter pinpoint location information within the text of opinions obtained by HyperLaw from the Supreme Court, using the star pagination method.

We believe that page pinpoint locations to the Supreme Court opinions republished by West in the Supreme Court Reporter are not protected under even the West theories of copyright law and under the repudiated Mead case.

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West appears to base its copyright claims regarding pinpoint locations and star pagination upon "selection, coordination, and arrangement"

In analyzing West copyright claims as to "selection, coordination, and arrangement", each of the West reporters needs to be evaluated independently. Thus, whatever West does or does not claim to do with reference to the Atlantic Reporter volumes has nothing whatsoever to do with the Supreme Court Reporter.

With regard to the Supreme Court Reporter volumes, there is no evidence whatsoever of any selection, coordination, or arrangement that would support even an argument for copyright protection for the pinpoint locations used in the star pagination of those reports. There are a limited number of Supreme Court opinions every year, usually under 120. The opinions are published by the Court as slip opinions, and then subsequently in the Preliminary Print and then the final bound volumes of the United States Reports. Any differences in arrangement between United States Reports and Supreme Court Reporter have no meaning. West engages in no selection, coordination, or arrangement whatsoever when it republishes those opinions in the Supreme Court Reporter.

HyperLaw proposes to insert the West Supreme Court Reporter pinpoint pagination into the text of the opinions that HyperLaw obtains directly from the Court. That is, HyperLaw will star-paginate its version of the Supreme Court slip opinions using the Supreme Court Reporter volume and page numbers.

We emphasize again that in HyperLaw's proposed use, the text of the opinions comes directly from the Court and all that HyperLaw intends to do is add the pagination for internal pages as used in the Supreme Court Reporter.

We do not intend to use any of the West digesting material, or any "editorial" enhancements that it may make - the only information from West will be the pinpoint pagination.

Accordingly, would you please confirm that HyperLaw would not infringe West copyright or other interests were HyperLaw to insert the Supreme Court Reporter volume and pagination in the text (star-paginate) that HyperLaw obtains from the Supreme Court, to be published in HyperLaw's CD-ROM.

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Lower Court Decisions

The next type of information that HyperLaw wishes to add to its CD-ROM is the text and star-pagination of the decisions of the lower courts which are on appeal or on certiorari to the United States Supreme Court. We believe that this would be of valuable assistance to legal researchers. HyperLaw was unable to add these to the 1990-1991 Term CD-ROM for fear of litigation from West. Thus, in our view West did interfere with an innovative advance in the science of legal research and scholarship.

These lower court decisions are of three types: lower federal court opinions reported in Federal Supplement or Federal Reporter; state court decisions published in an official state reporter; and state court decisions reported only in a West regional reporter.

HyperLaw would, of course, not include West digest, headnote, and key numbers. However, HyperLaw would insert the West pinpoint citation in star pagination fashion.

HyperLaw would use text obtained from the original courts.

Frankly, we are confused whether West asserts a copyright interest when there is no so-called "wholesale" use of pinpoint pagination in star pagination fashion. Mr. Vance Opperman in his May 14, 1992 Prepared Statement to the House Subcommittee stated as follows on page 22:

> What West continues to object to and what was really an issue in West v. Mead is the wholesale taking of its original copyrighted compilation of case law materials for direct commercial use by a competitor.

This is an interesting statement that bears closer scrutiny. First, Opperman does not state that West's only objection is "wholesale taking" -- and he begs the question whether West objects to something less than "wholesale" use. Second, Mr. Opperman states that "wholesale taking" was "an" issue in the Mead, not "the" issue. Once again, it is not clear what the other issues in Mead were, in West's view.

So, that is why we are forced to obtain a clarification from West as to whether inserting West star pagination in a relatively small number of cases is in its view a violation of the West copyright.

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Moreover, even if West does claim a copyright interest in such a use, we would disagree. We do not believe that there are any issues of infringing upon West's compilation since HyperLaw would be using less than 1 hundred-thousandths of all of the decisions reported in the National Reporter System. Thus, the reasoning even of the repudiated Mead case, would not protect isolated use of West's pinpoint citations in star-pagination fashion.

Please confirm that HyperLaw's proposed use of West's pinpoint citation in star pagination fashion as outlined above for the lower court cases appealed to the Supreme Court would not infringe upon West's copyrights.

Compilation Of Copyright Law Relating To Citation

Finally, HyperLaw plans to publish a copyright law CD-ROM containing the full text of all of the court decisions cited in the memoranda submitted by the Registrar of Copyright, Professor Craig Joyce, and others to the House Subcommittee at the hearing on May 14, 1992.

HyperLaw will also include other information, including the subcommittee report, the hearing transcript, etc. We believe that this will be a useful contribution that will lead to the advancement of the understanding of the issues involved. However, absent the ability to include citable versions of the judicial decisions, HyperLaw does not believe the CD-ROM would be commercially viable.

For this CD-ROM, HyperLaw will use as its source the National Reporter volumes published by West. Because many of the decisions are not recent, it would not be possible to obtain copies of the text of the decisions as originally promulgated by the courts.

HyperLaw will use the procedure described in our prior letters; that is deleting all West headnote, digest, and key number information. Because your last letter takes the position that were HyperLaw to copy a West decision for the purpose of blacking-out original information, HyperLaw would violate West's copyrights, HyperLaw will first black-out the original editorial information before copying the decisions. However, HyperLaw is interested in the authority for the West position.

What remains after rekeying or optical character recognition will be the original text of the court as "edited" by West.

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It is our understanding that the West editorial changes are mechanical "sweat of the brow" activities - typographical and citation errors are corrected, parallel citations not included are added, and, in some cases West "restates" an opinion by incorporating subsequent modifying orders.

We do not believe that such these mechanical editorial "changes" made by West are sufficient to support a claim of originality for the purposes of the copyright laws under the Feist decision. Moreover, West representatives work closely with the courts, and changes made by West are resubmitted for the approval of judges, clerks or other court employees, who approve these changes as part of their duties and at public expense.

Please advise us whether a CD-ROM containing copyright law decisions as we outlined would violate any West copyrights.

Conclusion

HyperLaw is not interested in obtaining a license from West, for material not properly copyrighted by West. See footnote 38 to the Prepared Statement of Professor Craig Joyce to the House Subcommittee. This is why last fall we refused to discuss a license unless West possessed an interest which would require a license.

The reason is that if West provides a license to HyperLaw, West, subsequently West could refuse to provide a license for similar types of CD-ROM compilations. For example, West could grandly provide a free license for the copyright CD-ROM described above, but later may refuse to provide a license for the next CD-ROM compilation that HyperLaw desired to publish. HyperLaw cannot be in the business of obtaining permission from a competitor to publish what is in the public domain anyway. Indeed, we are chagrined that we must tell West of our plans for an innovative Supreme Court CD-ROM, just to avoid being bankrupted.

We would appreciate a response in the next few days. For your information, we are forwarding copies of the correspondence between HyperLaw and West to the House Subcommittee.

Sincerely,

Alan D. Sugarman

Alan D. Sugarman
President, CEO, and Counsel

HYPERLAW INC PO BOX 1176 ANSONIA STATION NEW YORK, NY 10023-1176 TEL 212 787 2812 TOLL FREE 800 825 6521 FAX 212 496 4138

Exhibit 15

Letter Dated May 28, 1992,
James E. Schatz,
Opperman Heins Paquin to
Alan D. Sugarman,
HyperLaw, Inc.

OPPERMAN HEINS & PAQUIN
ATTORNEYS AT LAW
2200 WASHINGTON SQUARE
100 WASHINGTON AVENUE SOUTH
MINNEAPOLIS, MINNESOTA 55401
TELEPHONE (612) 339-6900
FACSIMILE (612) 339-0981

1300 I STREET, N.W.
EAST TOWER, SUITE 480
WASHINGTON, D.C. 20005
TELEPHONE (202) 962-3850
FACSIMILE (202) 962-3861

May 28, 1992

VIA FACSIMILE #212/496-4138

Mr. Alan D. Sugarman
HyperLaw, Inc.
P.O. Box 1176
Ansonia Station
New York, NY 10023-1176

Dear Mr. Sugarman:

I'm responding to your faxed letter of May 21. Again, it is apparent that you need to obtain knowledgeable advice regarding copyright law before you proceed. As I have indicated previously, West is not in the business of giving such advice and it is apparent from the tone of your letters that you would question such advice if West were to give it.

The intent of your letters seems to be to get West to take positions or make threats of litigation to enable you to file suit against West. However, West does not want to become involved in litigation with you, HyperLaw or any other person or entity. West desires only to create and produce its own products, and compete vigorously in the marketplace against competitors who create and produce their own products. Of course, the latter does not include those who unlawfully copy or otherwise rip-off the products of others. The "competition" resulting from such actions is neither true competition nor fair.

You state in your letter that you are "chagrined that we must tell West of our plans for an innovative Supreme Court CD-ROM . . . ." However, West hasn't in any way forced you to so notify it. Rather, you have yourself chosen to do so, apparently because you wish to copy various material from West publications and are concerned about the legality of such copying. If you were planning a <u>truly</u> "innovative" <u>new</u> product, there would be no reason for you to contact West.

Your letter again reveals some rather basic misunderstandings regarding, among other subjects, compilation copyright law, the nature and extent of West's copyrights, the nature and extent of West's editorial and compilation efforts, the West v. Mead and Feist cases, the current and historical uses of legal citations and star pagination, the various West testimony to which you refer, and the testimony of the Registrar of Copyrights to which you refer. While West is not in the business of giving legal advice as noted above, it is willing to have us meet with you in person, on a confidential basis, for the sole purpose of discussing certain facts which may help you to resolve for yourself some of the issues you have raised. As suggested, for general business reasons, an appropriate confidentiality agreement must be entered into before such a meeting can take place. If you are interested, we would be happy to draft and propose such an agreement. With respect to time and location, we could meet with you in Minneapolis on just about any work day within the next month other than June 4, 5, 8, 18, 24, 25 or 26. If you want to meet in New York, we could do so on June 25 or 26 or on July 15, 16 or 17. We would be happy to arrange for a meeting location in either city.

In case you do not wish to meet with us, let me briefly correct or comment on a few of your factual errors or misunderstandings. Hopefully, this discussion will help you understand the true situation.

First, with respect to citation of reports of Supreme Court decisions, there are many possible sources recognized by court rules and citation authorities, such as the Bluebook and Maroonbook, including U.S. Reports, Lawyer's Edition, Law Week, Supreme Court Bulletin, Supreme Court Reporter, WESTLAW and LEXIS. Since citation norms and rules reflect available sources, these citable sources certainly could, and may now, also include HyperLaw's CD-ROM product if you are a reliable source of reports and provide a means of citation to your reports.

Second, "in and of itself" has its normal English meaning.

Third, West exercises significant selection, coordination and arrangement in creating its Supreme Court Reporter, Federal Reporter and Federal Supplement volumes. Much of this creativity is obvious on reviewing these volumes, and other such creativity is not so obvious.

Fourth, as explained in my letter to you of October 9, 1991, the "original text of the court" can be found only in the opinions as filed by the courts -- the source where West and other case report providers start. West reports of such opinions vary substantially from such opinions in their selection, coordination and arrangement of material included. This should have been apparent to you from comparing the slip opinion enclosed with my October 9 letter to the West report of the case. These variations are not limited to the "West headnote, digest, and key number information" you mention, nor do they include, so far as West is concerned, what you describe as "changes made by West are resubmitted for the approval of judges, clerks or other court employees, who approve these changes as part of their duties and at public expense." Such variations include editorial and other material that is significantly and originally selected, coordinated and arranged by West.

Please give me a call if you wish to schedule a meeting.

Very truly yours,

OPPERMAN HEINS & PAQUIN

James E. Schatz

JES/cb

c: Vance K. Opperman

Exhibit 16

Letter Dated May 29, 1992,
Alan D. Sugarman,
HyperLaw, Inc. to
James E. Schatz,
Opperman Heins Paquin.

HyperLaw™

Via Facsimile 612-339-0981

May 29, 1992

Mr. James E. Schatz
Opperman Heins & Paquin
2200 Washington Square
100 Washington Avenue South
Minneapolis, Minnesota 55401

Dear Mr. Schatz:

I have received via facsimile your letter of May 28, 1992.

Perhaps you do not understand: it is HyperLaw that does not wish to be sued by West, and that is why we are trying to clarify what it is that West claims. As it stands, we cannot get a straight answer, and, have been advised by West that if we proceed "we do so at our own risk." We consider the risk to be substantial, after having heard about the fate of ROM, Inc. Nor could we afford the defense costs incurred by Mead after it was sued by West. We are also confused: if I heard West's testimony on H.R. 4662 properly, West wishes to have these issue decided in court, and not by Congress.

Quite clearly, three of the requests in our letter of May 21, 1992, related to text obtained directly from the court, to which we would add only the West page numbers. We do not see, nor do most other disinterested observers see, any creativity whatsoever in inserting those page numbers into the text obtained from the court. Two of our requests related solely to the Supreme Court Reporter. It is not obvious that there is any "significant selection, coordination and arrangment" for that publication.

As to our request that we insert in text obtained from the Supreme Court only the volume and first page citation from Supreme Court Reporter, I thought I was merely requesting confirmation for what Dwight Opperman told Judge Kelley in his testimony to the Judicial Conference last fall. Once could conclude that West has misled the Judicial Conference.

Further, your insistence in comparing the slip opinion version of Mendell v. Gollust, 909 F.2d 724 (2d Cir. 1990), affirmed, __ U.S. __ (1991) with the West reporter version of such opinions misses the point as you must know. In our September 19, 1991, letter, we very carefully prepared from the West version a redacted version of the Mendell case, stripping out all material that arguably is copyrightable, such as headnotes and key numbers. The issue is comparing the slip opinion version to the redacted version, not to the West version. I hope you see the

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distinction -- it is rather important. In addition, the issue of photocopying the Mendell case is an equal diversion -- we could have used an original copy or have prepared the redacted version by keying in the text again. Let us deal in substance.

For anyone to contend that the redacted version of Mendell "var[ies] substantially from such opinions in their selection, coordination and arrangement of material" and "such variation include editorial and other material that is significantly and originally selected, coordinated, and arranged" is fallacious and misleading. We have compared the Mendell slip opinion to the redacted version derived from the West reporter. The only difference we could find were a very few instances of adding parallel citations. That is not creative, not original, not significant, and not substantial. I invite West to mark up the redacted version and indicate each instance of creative and original changes made by West. But West will not do this because there are none.

Moreover, the question remains as to the basis for any claim by West that adding the West pagination to the Mendell slip opinion would violate West copyright interests, where there is no intention to publish all or substantially all of the opinions from volume 909 of the Federal Reporter 2d.

We do not view your suggestion for a meeting as one made in good faith, since, we see no need for, and will not sign, a confidentiality agreement. Among other reasons, we do not wish to contractually obligate ourselves to West and subject us to the posssibility of harassing litigation. We do not wish to have access to West confidential information, nor do we wish to use properly copyrighted West material. If you wish to repropose a meeting without any confidentiality restrictions, please let me know.

Implicit in your other comments is that even if the West copyrights were invalid, West would still object to competition that is not "fair", which we take as a threat to sue us for unfair competition were we to proceed. We do not intend to proceed in any activity which will subject us to litigation from West.

Sincerely,

Alan D. Sugarman
President, CEO and Counsel

to a non-owner, rather than to American Can itself, the sole holder of a security of the successor to Van Winkle.

Blau was mentioned by this Circuit and contrasted with *Untermeyer v. Valhi, Inc.*, 665 F. Supp. 297 (S.D.N.Y. 1987), *aff'd mem.*, 841 F.2d 1117 (2d Cir.), *aff'd on reh'g*, 841 F.2d 25, 25 (2d Cir.) ("In *Blau* the issuer had been merged out of existence. . . . [and] the short swing-profits illegally gained would never have been recovered. In contrast, the issuer here, Sea-Land, survived the merger and remains a viable corporate entity. Because Sea-Land remains a viable corporate entity, it or its shareholder, CSX [the parent], can bring an action under section 16(b) to recover the short-swing profits allegedly gained.") (citations omitted), *cert. denied*, 109 S. Ct. 125 (1988). That comment is directly apposite here.

Two other circuit courts which have addressed this issue have refused to extend the statutory qualification to former shareholders of the issuer either when the issuer remains a viable corporate entity, *see Portnoy*, 607 F.2d at 769 (7th Cir. 1979), or when the issuer was merged out of existence. *See Lewis v. McAdam*, 762 F.2d 800, 804 (9th Cir. 1985) (per curiam) ("We hold that where a corporation is merged out of existence by the wholly owned subsidiary of another corporation, the parent corporation is not an 'issuer' within the meaning of section 16(b). Similarly, a shareholder of the parent corporation cannot be considered an 'owner of any security of the issuer' and accordingly lacks standing to bring a section 16(b) action.").

The SEC itself recognizes that qualifying former shareholders to sue, either judicially or by rule-making, is a marked departure from the pre-existing jurisprudence under § 16(b). *See* 53 Fed. Reg. at 50013 ("Currently, the plaintiff is required to hold these shares [in the issuer] throughout the legal process.") (citing *Portnoy*, *supra*.); *Id*. ("Where the issuer continues to exist as a wholly-owned subsidiary, . . . the courts have uniformly denied standing to former shareholders and shareholders of the parent.") (citing *Untermeyer*, *infra*; *Lewis*, *supra*; *Portnoy*, *supra*.).

It is a frequently stated principle of statutory construction that when legislation expressly provides a particular remedy or remedies, courts should not expand the coverage of the statute to subsume other remedies. *See National Railroad Passenger Corp. v. National Assoc. of Railroad Passengers*, 414 U.S. 453, 458 (1974). "When a statute limits a thing to be done in a particular mode, it includes the negative of any other mode." *Botany Mills v. United States*, 278 U.S. 282, 289 (1929). In short, the remedies created in § 16(b) are the exclusive means to enforce the obligation imposed by the Act. *Nat'l Railroad Passenger Corp.*, 414 U.S. at 458.

Congress simply has not delegated to the courts the authority to qualify a "former" owner as an "owner of any security of the issuer." While I agree with the statement in *Blau*, 250 F. Supp. at 884, that "[t]he courts, particularly in our circuit, have consistently interpreted section 16(b) in 'the broadest possible' terms in order not to defeat its avowed objective," the case authorities have also taught that: "We have no constitutional authority to rewrite a statute simply because we may determine that it is susceptible of improvement." *Lewis v. McAdam*, 762 F.2d 800, 804 (9th Cir. 1985) (citing

Exhibit 17

Letter Dated June 2, 1992,
James E. Schatz
Opperman Heins Paquin to
Alan D. Sugarman,
HyperLaw, Inc.

OPPERMAN HEINS & PAQUIN
ATTORNEYS AT LAW
2200 WASHINGTON SQUARE
100 WASHINGTON AVENUE SOUTH
MINNEAPOLIS, MINNESOTA 55401
TELEPHONE (612) 339-6900
FACSIMILE (612) 339-0981

1300 I STREET, N.W.
EAST TOWER, SUITE 480
WASHINGTON, D.C. 20005
TELEPHONE (202) 962-3850
FACSIMILE (202) 962-3861

June 2, 1992

VIA FACSIMILE #212/496-4138

Mr. Alan D. Sugarman
HyperLaw, Inc.
P.O. Box 1176
Ansonia Station
New York, NY 10023-1176

Dear Mr. Sugarman:

I'm responding to your faxed letter of May 29. Although you claim to seek West's view of the legality of your intended actions, it has become apparent that you are really interested in repeatedly stating your own faulty views of the relevant facts and law. However, repetition of falsehoods does not make them true.

If you are serious about "deal[ing] in substance," we remain willing to meet with you, under the conditions previously stated, to discuss the facts. If not, we have made West's position clear.

Very truly yours,

OPPERMAN HEINS & PAQUIN

James E. Schatz

JES/cb

0007681

Exhibit 18

Letter Dated June 11, 1992,
Alan D. Sugarman,
HyperLaw, Inc. to
James E. Schatz,
Opperman Heins Paquin.

HyperLaw™

June 11, 1992

Mr. James E. Schatz
Opperman Heins & Paquin
2200 Washington Square
100 Washington Avenue South
Minneapolis, Minnesota 55401

Dear Mr. Schatz:

We disagree with the characterization of our correspondence to your firm as made in your letter of June 2. Resort to claims of unspecified falsehoods coupled with the other gratuitous comments is not constructive.

When we suggested in an earlier letter that the extent of West's copyright claims were a secret known only to West, we were correct. The fact that your client will only have discussions concerning the scope of its copyright under the protection of a confidentiality agreement supports this suggestion.

We have gone to lengths to pose narrow and specific questions. These are not academic questions. It is regrettable that your client has been unwilling to answer these specific questions; that was our meaning in stating that we prefer to deal in substance.

Furthermore, we object to the recitation of conclusory language as evidence of fact. The repetitious assertions made by your client, such as that "West reports of such opinions vary substantially from such opinions in their selection, coordination and arrangement of material included" does not make those assertions fact.

Once again, we are willing to meet with your client, but not subject to a confidentiality agreement.

Finally, your letter states: "[W]e have made West's position clear". West has <u>not</u> been clear in responding to our questions. West has <u>not</u> been clear in specifying its position on specific copyright claims. In short, West has <u>not</u> been clear on anything of substance. What is clear is that the statement is merely another of West's bullying threats.

Sincerely,

Alan D. Sugarman
President, CEO, and Counsel

HYPERLAW, INC. P.O. BOX 1176 ANSONIA STATION NEW YORK, NY 10023-1176 TEL: 212.787.2812 TOLL FREE. 800.825.6521 FAX: 212.496.4138

Exhibit 19

Letter Dated June 18, 1992,
James E. Schatz,
Opperman Heins Paquin to
Alan D. Sugarman,
HyperLaw, Inc.

OPPERMAN HEINS & PAQUIN
ATTORNEYS AT LAW
2200 WASHINGTON SQUARE
100 WASHINGTON AVENUE SOUTH
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WASHINGTON, D.C. 20005
TELEPHONE (202) 962-3850
FACSIMILE (202) 962-3861

June 18, 1992

Mr. Alan D. Sugarman
HyperLaw, Inc.
P.O. Box 1176
Ansonia Station
New York, NY 10023-1176

Dear Mr. Sugarman:

Your attitude is not helping to resolve the concerns you claim to have, and our correspondence appears to be a waste of time and effort for both of us. If you really "prefer to deal in substance" as stated in your letter of June 11, you will agree to meet under the terms previously suggested. It is standard business practice to enter into confidentiality agreements before discussing facts or proposals that are not public or meant to be public. Let me know if you change your mind.

Very truly yours,

OPPERMAN HEINS & PAQUIN

James Schatz

James E. Schatz

JES/cb

0008698

Exhibit 20

Letter Dated May 23, 1993,
Alan D. Sugarman,
HyperLaw, Inc. to
Dwight D. Opperman,
President,
West Publishing Co.

HyperLaw™

May 23, 1993

Mr. Dwight D. Opperman
President and Chief Executive Officer
West Publishing Co.
610 Opperman Drive
PO Box 64525
St. Paul, MN 55164-0526

Dear Mr. Opperman:

It is our understanding that several years ago West Publishing Co. participated in an experiment with the Judicial Conference and the Administrative Office of the United States Courts to establish a methodology to electronically disseminate opinions.

West was designated to implement a system for, among other courts, the United States Court of Appeals for the Eleventh Circuit. Mead Data Central was designated to implement a system for, among other courts, the United States Court of Appeals for the Tenth Circuit.

We have also been advised that the understanding between West, Mead, and the courts was that all publishers would have equal access to this electronic information. In honoring that commitment, Mead Data Central has in the last two week made available to HyperLaw the decisions from the Tenth Circuit, after a request by the Tenth Circuit to Mead. Mead now causes the decisions to be transmitted to our folder on AT&T Easy Link. Our cost is payment of the AT&T charges.

We have now learned that West controls the computers that transmit Eleventh Circuit decisions to Mead Data Central (and not through AT&T Easy Link.) Some of the foregoing is described in Chief Judge Tjoflatt's testimony before the Library Program Subcommittee on September 13, 1991.

In any event, under the present situation, West and Mead are able to effect not only a domination as to electronic dissemination of Eleventh Circuit decisions, but also effective dominant control as to "full sets" of electronic versions of all Federal Courts of Appeals decisions.

We hereby demand that West make available to HyperLaw the Eleventh Circuit decisions on the same basis that West makes those decisions available to Mead.

Sincerely,

Alan D. Sugarman
President and CEO

cc: Hon. Gerald Bard Tjoflatt
Hon. Rya W. Zobel
Hon. Robert F. Kelly

HYPERLAW, INC. P.O. BOX 1176 ANSONIA STATION NEW YORK, NY 10023-1176 TEL: 212.787.2812 TOLL FREE: 800.825.6521 FAX: 212.496.4138

Exhibit 21

Letter Dated June 14, 1993,
Dwight D. Opperman,
President,
West Publishing Co. to
Alan D. Sugarman,
HyperLaw, Inc.

West Publishing Company
610 Opperman Drive
Eagan, MN 55123
(612)687-7556

DWIGHT D. OPPERMAN
President & Chief Executive Officer

June 14, 1993

Mr. Alan D. Sugarman
President and CEO
HYPERLAW, INC.
P. O. Box 1176
Ansonia Station
New York NY 10023-1176

Dear Mr. Sugarman:

I am writing in response to your letter dated May 23, 1993 in which you request that West make the Eleventh Circuit Decisions available to Hyperlaw "on the same basis that West makes those decisions available to Mead."

The experiment you refer to in your letter began in February, 1989. The terms of the experiment obligate neither West nor Mead Data Central (MDC) to provide decisions electronically to any party other than to each other as participants in the experiment. The purpose of the experiment was simply to demonstrate the feasibility of the electronic distribution of decisions by allowing Court personnel to evaluate and compare competitive systems developed by West and MDC. The success of the experiment has been evident since most of the Circuits have installed systems for the electronic distribution of decisions.

In the case of the Tenth and Eleventh Circuits, the systems set up under the experiment for the electronic transmission of decisions are still in operation. However, both Circuits plan to terminate the experiment and set up fully operational distribution systems in the near future.

Specifically, regarding the terms of the experiment in the Tenth and Eleventh Circuits, the Eleventh Circuit has been providing decisions to West and MDC using a system provided by West, and the Tenth Circuit has been providing decisions to West and MDC using a system provided by MDC. West pays the AT&T Mail charges incurred for distribution of the Eleventh Circuit Decisions and MDC pays the charges for the Tenth Circuit Opinions. In that way, each participant pays its share of the electronic mail charges incurred as part of the experiment. It should be emphasized that Court personnel operate the system and control the release and distribution of decisions for each Circuit.

If you are interested in receiving Eleventh Circuit Opinions electronically, you should contact the Clerk of Court who manages the opinion distribution process. At the wish of the Court, we will distribute the decisions C.O.D. to a Hyperlaw folder via AT&T Mail. You will need to agree to accept all charges for materials distributed by the Court to your folder, however, before we will begin distribution.

Very truly yours,

Dwight D. Opperman

President & Chief Executive Officer

cc: Miguel Cortez

Exhibit 22

Letter Dated June 21, 1993,
Alan D. Sugarman,
HyperLaw, Inc. to
Dwight D. Opperman,
President,
West Publishing Co.

HyperLaw™

Federal Express

June 21, 1993

Mr. Dwight D. Opperman
President and Chief Executive Officer
West Publishing Company
610 Opperman Drive
Eagan, MN 55123

Dear Mr. Opperman:

We have received your letter dated June 14, 1993. HyperLaw's AT&T EasyLink Account ID is HLAW. West is hereby authorized to upload Eleventh Circuit decisions to our EasyLink folder C.O.D. We hereby agree to accept all charges for material distributed to our AT&T folder.

For the Tenth Circuit, Lexis last month was able to make the necessary changes on the computer located at the Tenth Circuit in under five minutes and we were able to download Tenth Circuit decisions within 24 hours after we provided our User ID to Lexis.

As far as the remainder of your letter, it would appear that the West understanding of the "agreement" is at variance with the understanding of others involved. The inference that the federal judiciary knowingly entered into a blatant agreement with West by which West and Lexis could control the electronic data market is hard to believe. Moreover, the so-called "experiment" has provided West with data that has been used in a commercial manner for over four years, while permitting others to be excluded from access to that data.

We first requested access to Eleventh Circuit decisions almost one year ago, on July 9, 1992. We also requested a copy of the slip opinion printing contract between the Eleventh Circuit and West, for the express purpose of determining what provisions related to electronic dissemination. After numerous requests to the Eleventh Circuit and the Administrative Office, we received a letter on December 18, 1993 from the Administrative Office refusing to provide the contract to us because of objections from West Publishing Company. West is shown as having received a copy of that letter, and, without doubt there were communications between the Administrative Office and West regarding our request.

West and the Administrative Office entered into "extension" agreements of that contract including "extensions" on October 21, 1992, January 7, 1993, and April 5, 1993. Also, interestingly, on October 21, 1992, Carol Myers of the Administrative Office (who signed an "extension" that same day) sent me a letter stating that the Administrative Office was reviewing the file to determine whether proprietary information was contained in the

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printing contract, clearly indicating that the Administrative Office as early as October was having discussions with West concerning our requests.

Please also note that the Solicitation for the Eleventh Circuit printing contract that was being "extended" was dated January, 1, 1986, and provided that "the total duration of this contract, including the exercise of any option extending this contract, shall not exceed 43 months."

We may never know what really went on, but there is much that suggests that West has been obstructing our access to Eleventh Circuit decisions.

It is all very fine to receive these decision going forward in the future, but, we are now missing one year's worth of Eleventh Circuit decisions. We would most appreciate if you would see that are arrangements are made to provide that data to us.

Thank you.

Very truly yours,

Alan D. Sugarman
President and CEO

cc:

Hon. Rya W. Zobel
Hon. Robert F. Kelly
Miguel Cortez

HYPERLAW, INC P.O. BOX 1176 ANSONIA STATION NEW YORK, NY 10023-1176 TEL 212.787.2812 TOLL FREE 800.825.6521 FAX 212 496 4138

Exhibit 23

Letter dated March 17, 1993,
from the Administrative
Office of United States Court
to Alan D. Sugarman,
HyperLaw, Inc.

L. RALPH MECHAM
DIRECTOR

JAMES E. MACKLIN, JR.
DEPUTY DIRECTOR

ADMINISTRATIVE OFFICE OF THE
UNITED STATES COURTS
WASHINGTON, D.C. 20544

WILLIAM R. BURCHILL, JR.
GENERAL COUNSEL

March 17, 1993

Mr. Alan D. Sugarman
President and CEO
HyperLaw, Inc.
P.O. Box 1176
Ansonia Station
New York, New York 10023-1176

Dear Mr. Sugarman:

Enclosed is a copy of the solicitation for the printing of opinions for the United States Court of Appeals for the Eleventh Circuit.

I cannot answer the questions you raised in your letter of December 28, 1992, which concern practices of the court relating to the distribution of opinions in electronic format. Such questions should be directed to the court. I will relay your concerns to our organization which is responsible for coordinating automation activities with the Judicial Conference of the United States, which has a policy of equal access to all opinions of Federal courts under its jurisdiction.

While this agency attempts to comply with the policy of the Freedom of Information Act, we would like to keep the process of obtaining information as informal as possible. We do not believe we would promote such informality by disclosing submissions relating to requests for information. We did not provide a copy of your request to West Publishing Company and likewise are not inclined to release West's response to our notice that we had received a request for its opinion printing contract. We ask for your cooperation in this regard. West opposed release on the very formal ground that FOIA did not apply to the Judiciary, and also that the disclosure of its pricing strategy would cause it competitive harm. As explained to you in our last letter, we are taking action to assure that each and every offeror for a Judiciary contract agrees to the release of its prices if it is awarded the contract.

Sincerely,

David E. Weiskopf

David E. Weiskopf
Deputy General Counsel
for Business Administration

Enclosure

SOLICITATION, OFFER AND AWARD

1. CERTIFIED FOR NATIONAL DEFENSE UNDER BDSA REG. 2 AND/OR DMS REG. 1 ▶ | RATING | PAGE OF PAGES

CONTRACT NO. | 3. SOLICITATION NO.: GANAC-86-02 | 4. TYPE OF SOLICITATION: [XX] ADVERTISED (IFB) [ ] NEGOTIATED (RFP) | 5. DATE ISSUED: 1/21/86 | 6. REQUISITION/PURCHASE NO.

ISSUED BY — CODE

Administrative Office of the U. S. Courts
Procurement & Property Management Branch
Washington, D. C. 20544
Attn: Contracting Section

8. ADDRESS OFFER TO (If other than Item 7)

Clerk, U. S. Court of Appeals
50 Spring Street, SW
Atlanta, GA 30303

NOTE: In advertised solicitations "offer" and "offeror" mean "bid" and "bidder".

SOLICITATION

Sealed offers in original and 4 copies for furnishing the supplies or services in the Schedule will be received at the place specified in Item 8, or if hand carried, in the depository listed in Rm. 339, 50 Spring Street, SW, Federal Annex Building, Atlanta, GA 30303 until 11:00am local time 2/20/86 (Hour) (Date)

CAUTION — LATE Submissions, Modifications, and Withdrawals: See Section I, Provision No. 52.214-7 or 52.215-10. All offers are subject to all terms and conditions contained in this solicitation.

10. FOR INFORMATION CALL ▶ A. NAME: Spencer D. Mercer, Clerk | B. TELEPHONE NO. (Include area code) (NO COLLECT CALLS): 404-331-2211

11. TABLE OF CONTENTS

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OFFER (Must be fully completed by offeror)

NOTE: Item 12 does not apply if the solicitation includes the provisions at 52.214-16, Minimum Bid Acceptance Period.

12. In compliance with the above, the undersigned agrees, if this offer is accepted within ______ calendar days (60 calendar days unless a different period is inserted by the offeror) from the date for receipt of offers specified above, to furnish any or all items upon which prices are offered at the price set opposite each item, delivered at the designated point(s), within the time specified in the schedule.

13. DISCOUNT FOR PROMPT PAYMENT (See Section I, Clause No. 52-232-8) ▶	10 CALENDAR DAYS	20 CALENDAR DAYS	30 CALENDAR DAYS	CALENDAR DAYS
	%	%	%	%

14. ACKNOWLEDGMENT OF AMENDMENTS (The offeror acknowledges receipt of amendments to the SOLICITATION for offerors and related documents numbered and dated)	AMENDMENT NO.	DATE	AMENDMENT NO.	DATE

15A. NAME AND ADDRESS OF OFFEROR — CODE — FACILITY

16. NAME AND TITLE OF PERSON AUTHORIZED TO SIGN OFFER (Type or print)

15B. TELEPHONE NO. — 15C. CHECK IF REMITTANCE ADDRESS IS DIFFERENT FROM ABOVE - ENTER SUCH ADDRESS IN SCHEDULE.

17. SIGNATURE — 18. OFFER DATE

AWARD (To be completed by Government)

19. ACCEPTED AS TO ITEMS NUMBERED | 20. AMOUNT | 21. ACCOUNTING AND APPROPRIATION

22. SUBMIT INVOICES TO ADDRESS SHOWN IN (4 copies unless otherwise specified) ▶ ITEM

23. NEGOTIATED PURSUANT TO [ ] 10 U.S.C. 2304(a) ( ) [ ] 41 U.S.C. 252(c) ( )

24. ADMINISTERED BY (If other than Item 7) — CODE

Clerk, U. S. Court of Appeals
50 Spring Street, SW
Atlanta, GA 30303

25. PAYMENT WILL BE MADE BY — CODE

Clerk, U. S. District Court, Atlanta, GA

26. NAME OF CONTRACTING OFFICER (Type or print)

27. UNITED STATES OF AMERICA

(Signature of Contracting Officer)

28. AWARD DATE

IMPORTANT — Award will be made on this Form, or on Standard Form 26, or by other authorized official written notice.

B.10 United States Court of Appeals for the Eleventh Circuit to be printed on cover page for each opinion as shown on heading in enclosure No. 1.

B.11 Grade of paper shall be at least No. 1 Offset grade, Substance 50.

B.12 Each opinion shall be collated and stapled (two staples) or stitched.

B.13 No charge is to be made for blank or unprinted pages

SECTION C - DESCRIPTION/SPECS./WORK STATEMENT

C.1 SCOPE OF AGREEMENT

C.1.1 This solicitation by the Administrative Office of the United States Courts, on behalf of the United States Court of Appeals identified in Section A, solicits bids from private firms for the printing of slip opinions. Any award resulting from this solicitation to a successful offeror constitutes an acceptance and completed contract solely as to the Terms, Specifications, and Prices stated herein.

C.1.2 Offerors must describe briefly the composition and printing process to be utilized in the performance of any resulting Agreement.

C.1.3 Anticipated additional work tasks, which require itemization and which are not listed in Section B, should be added to Section B by the offeror and priced accordingly. If the Offerors accounting procedures require a more detailed price breakdown than provided for in Schedule B, such breakdown may be included.

C.1.4 Offeror should enter No Charge (N.C.) for materials and services which the offeror will supply without additional separate charge.

C.2 TERM OF AGREEMENT

C.2.1 Although the Administrative Office of the United States Courts contemplates a contract life of forty-three (43) months, the initial period of the contract is from date of award, through September 30, 1986.

C.3 OPTION TO EXTEND THE TERM OF THE CONTRACT

The Government reserves the right to extend the term of this contract at the prices, terms and conditions as provided herein, by the Contracting Officer giving a preliminary written notice to the Contractor of the Government's intent to extend the term of the contract, at least sixty (60) days prior to contract expiration date. Such preliminary written notice shall not be deemed to commit the Government to extend. If the Government exercises this option to extend the term of the contract, such extension shall be given in writing, by modification to the contract, to the Contractor on or before the expiration date. Also, is the Government exercises this option for extension, the contract shall be deemed to include this option provision. However, the total duration of this contract, including the exercise of any option extensions under this contract, shall not exceed forty-three (43) months.

C.4 PERFORMANCE

C.4.1 The award of a contract does not bind the Government to place any orders with the Contractor. However, if the Government requires the services provided herein during the Term of the Contract, orders for such requirements shall be placed with the Contractor in accordance with the Terms and Conditions of the Contract. Any estimated requirements specified in this document constitute estimates only, and, accordingly, no commitment or guarantee to order any specified volume of business is made or implied.

C.4.2 The printing of all documents shall be in accordance with the rules of the United States Court of Appeals identified in Section A.

C.4.3 The Contractor shall accept all orders placed by the Government during the Term of the Contract, for all items for which award is made.

C.4.3.1 Although each order for printing shall be in writing, the Contracting Officer may contact the Contractor orally to place an order which will be confirmed in writing.

C.4.4 The Contractor shall be responsible for any loss of or damage to finished work products in the Contractor's possession pursuant to this Contract.

C.4.5 Pursuant to Regulation 13, Government Printing & Binding Regulations, no Government publication or other Government printed matter, prepared or produced with either appropriated or nonappropriated funds or identified with an activity of the Government, shall contain any advertisement inserted by or for any private individual, firm, or corporation; or contain material which implies in any manner that the Government endorses or favors any specific commercial product, commodity, or service.

C.4.6 Pursuant to Regulation 40, Government Printing & Binding Regulations, all documents and publications printed at Government expense shall have printed thereon the identification as to the branch, bureau, department or office of the Government issuing the same, and the date of issuance (e.g. AO, USC 5-1-85).

C.4.7 The Contractor shall treat the manuscript delivered to it by the Government as confidential. The Contractor shall use the material contained therein solely to develop the printed product covered by the contract.

C.4.8 The Contractor shall not allow access to the printed opinions until such time as the opinions are made available to the public by the United States Court of Appeals.

C.4.9 The Contractor shall not allow access to any data base which may be produced during the printing of opinions under this Agreement, until such time as the printed opinions are available to the public and/or other data base vendors.

SECTION D - PACKAGING AND MARKING

OPINIONS

D.1. Eleventh Circuit Opinions, 500 copies with continuity of numerical pagination from page to page and from opinion to opinion as received and printed in chronological sequence and accomplished by numbering for the period March 1, 1986 through September 30, 1986. Printing in two (2) column format with trim page size of opinions to be 6 1/4 inches wide x 9 1/2 inches long. Type page size to be 5 1/4 inches wide x 8 inches long. (See Enclosure 1 for sample.)

a. Straight matter in 9 point type, clearly legible and easily readable as that shown in Enclosure 1.

b. Tabular matter in 7 point type and tabular headings in 10 point type,

c. Footnotes in 7.5 point type.

D.2. Editorial headnote service, substantially in accordance with the sample format attached as Enclosure 1, summarizing the issues presented and holdings of the Court will be prepared by the printer from the typewritten manuscript opinion furnished, and included by the printer in the heading of the printed slip opinion.

SECTION F - DELIVERIES AND PERFORMANCE

F.1 As required in Section B, the Contractor shall provide services for the pickup of documents to be composed and printed, and delivery of finished work.

F.2 All finished work products, materials, and all other items made or furnished by the Contractor as required, and paid for by the Government, shall remain or become the property of the United States, and shall not be submitted, loaned, leased, displayed, or sold to any other party by the Contractor.

Exhibit 24:

Exclusions of Copyright Protection for Certain Legal Compilations: Hearings on H.R. 4426 Before the Subcomm. on Intellectual Property and Judicial Administration, House Comm. on the Judiciary, 102nd Congress, 2nd Session, (7-32) (1992). Statement of Ralph Oman, Register of Copyrights.

Ex. 24 TESTIMONY of
RALPH OMAN, Reg. of Copyrights

EXCLUSION OF COPYRIGHT PROTECTION FOR CERTAIN LEGAL COMPILATIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTELLECTUAL PROPERTY AND JUDICIAL ADMINISTRATION

OF THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

SECOND SESSION

ON

H.R. 4426

EXCLUSION OF COPYRIGHT PROTECTION FOR CERTAIN LEGAL COMPILATIONS

MAY 14, 1992

Serial No. 105

Printed for the use of the Committee on the Judiciary

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Representative Frank's bill would clarify that public domain elements like case names, numbers, citations, and volume and page numbers are meant to be freely accessible and not subject to proprietary rights that might inhibit commercial copying. The Copyright Office supports the general principle of this bill that copyright should not be available to protect these elements.

Of course, the question always occurs: Is this bill necessary? I would contend that the material covered is probably not copyrightable under current law, particularly after the recent Supreme Court decision in *Feist*.

If Congress does decide to legislate, I have two suggestions. First, the legislative history should make clear that the bill only clarifies existing law and applies to both legal and nonlegal materials. Second, because of this broad application, section 102 of the general subject matter section of the Copyright Act should be amended, rather than section 105, which is the Government works section.

Although the Copyright Act does not protect facts, the compilation of such unprotectable elements may be protected given enough original selection, coordination, or arrangement. For a century and a half, before the eighth circuit decision in *West Publishing* v. *Mead Data*, no court had protected case arrangement and pagination standing alone. Original headnotes, original summaries of facts, and original summaries of holdings, on the other hand, have been held to be copyrightable, and this is the type of service that West routinely provides.

The *Mead Data* decision was a substantial departure from existing precedent. The court applied equitable and sweat-of-the-brow considerations and some inherent notions of unfair competition relief to give protection against copying. Those are compelling arguments. Even if the eighth circuit's decision were consistent with existing law, *Feist* tolled the death knell for creations based exclusively on sweat-of-the-brow instead of on originality. The Constitution requires an element of originality before copyright protection will kick in.

Feist teaches us that even though only a modest level of creativity is required for copyrightability, that creative spark is still a constitutional prerequisite, and originality is necessary in the selection, coordination, or arrangement of a compilation. The subject matter that the bill would exempt from copyright protection contains no more creativity than the alphabetical arrangement of names in the white pages of telephone directories that the Supreme Court concluded in *Feist* was, using the words of Justice O'Connor, "not only unoriginal, but practically inevitable."

This concludes my oral statement, Mr. Chairman. I would be pleased to answer any questions now or in writing.

[The prepared statement of Mr. Oman follows:]

Statement of Ralph Oman
Register of Copyrights and
Associate Librarian for Copyright Services
Before the Subcommittee on Intellectual Property
and Judicial Administration
House Committee on the Judiciary
102d Congress, Second Session

May 14, 1992

Mr. Chairman and members of the Subcommittee, I am pleased to appear before this distinguished body. Thank you and your staff for the opportunity to appear here today to testify on H.R. 4426.

The bill, introduced by Representative Barney Frank, was referred to the House Judiciary Committee on March 11, 1992, and would amend section 105 of the Copyright Act [1] to exempt from protection the names, numbers and citations of state and federal laws and regulations, and the volume and page numbers of state and federal regulations and judicial opinions, even if compiled by a private sector publisher. H.R. 4426 would also clarify that states could continue to charge reasonable fees for making available laws, regulations and judicial opinions.

The Copyright Office supports the general principle of the bill that copyright should not be available to protect these facts.

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[1] 17 U.S.C. §105 (1976).

BACKGROUND

The Copyright Act defines a compilation as:

> [A] work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship.[2]

However, copyright protection

> extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.[3]

[illegible] compilations and judicial opinions, all the compiler [illegible] could be the selection, coordination and arrangement [illegible] these public domain elements; they themselves are not [illegible]ectible.[4] While original headnotes, statements of facts and [illegible]maries of holdings, given sufficient authorship, are certainly

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[2] Id., §101.

[3] Id., §103.

[4] See Banks v. Manchester, 128 U.S. 244 (1888)(neither court nor reporter may have exclusive rights in written or oral court opinions); Wheaton v. Peters, 33 U.S. 591, 668 (1834)(reporter could not claim copyright in judicial opinions).

copyrightable, no case before West Publishing Company v. Mead Data Central, Inc.,[5] held that copyright existed in pagination and volume numbers, standing alone. Indeed, the Eighth Circuit ignored contrary precedent to reach this result.

In Wheaton v. Peters,[6] the Supreme Court held that an official court reporter was entitled to copyright protection for marginal notes or synopses of cases, statements of cases, abstracts of arguments of counsel, and indexes to volumes.[7]

The Court reached a similar result in Callaghan v. Myers.[8] Myers, who held the copyrights for several volumes of the Supreme Court of Illinois reports, sued the publishers of a competing reporter who had copied material from his reports, including the arrangement and pagination of some volumes. The Court affirmed the lower court's holding of infringement because a substantial portion of Myers' reports had been taken, but the Court specifically held that case arrangement and pagination were not copyrightable:

> Undoubtedly, in some cases, where are involved labor, talent, judgment, the classification and disposition of subjects in a book

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[5] 799 F.2d 1219 (8th Cir. 1986), cert. denied 479 U.S. 1070 (1987).

[6] 33 U.S. 591 (1834).

[7] See also West Publishing Co. v. Lawyer's Cooperative Publishing Co., 79 F. 756 (2d Cir. 1887)(injunction and damages granted for unauthorized use of copyrighted headnotes and digests).

[8] 128 U.S. 617 (1888).

> entitle it to copyright. But the arrangement of law cases and the paging of the book may depend simply on the will of the printer, of the reporter, or publisher, or the order in which the cases have been decided, or upon other accidental circumstances.[9]

Thus, even though the totality of the compilation was protectible, the component elements -- case arrangement and pagination -- did not represent sufficient authorship.

Addressing the narrower question of the copyrightability of certain compilation elements, the Second Circuit later held in Banks Law Publishing Co. v. Lawyers' Co-Operative Publishing Co.,[10] that the arrangement, division into volumes, table of cases and star pagination of U.S. Supreme Court reports, were not protectible.. Judge Hazel wrote:

> To intelligently prepare the headnotes or syllabuses of the cases, the official reporter manifestly had to become familiar with the opinions of the court and discussion of the points passed upon. Such intelligent labor and skill beyond doubt is correctly classified as being that of an author who by his writings is entitled to the protection of the [copyright] statute; but concededly it was the duty of the reporter under his appointment to make a report of the decisions of the court, cause them to be printed and

[9] Id. at 662.

[10] 169 F. 386 (2d Cir. 1909).

> published, and constitute them into volumes. A reasonable interpretation of the statute prescribing his duties implies pagination, volumes of uniform size and reasonable thickness, together with a suitable and convenient arrangement of the cases. If the reporter, owing to his familiarity with the decisions, chooses to arrange them in the order of their importance, or so far as possible conveniently group the opinions of each justice instead of in order of time or date of filing, he does so voluntarily and in evident compliance with the proper and faithful discharge of his official duties. True, the statute prescribing his duties does not point out how the cases shall be arranged into volumes and printed, but to fittingly reproduce the decisions and opinions in volumes it is necessary to supply pagings, together with an orderly arrangement of the cases. It is inconceivable to me that to merely arrange the cases in sequence (though concededly the reporter uses good judgment in so doing) and paging the volumes ... are features or characteristics of such importance as to entitle him to copyright protection of such details. In my estimation no valid copyright for these elements or details alone can be secured to the official reporter. A different question would be presented if, for instance, infringement of the headnotes, or syllabuses, index digest, synopses of arguments or statements of the cases, or an abridgement thereof were claimed.[11]

[11] Id. at 390 (emphasis added). See Eggers v. Sun Sales Corporation, 263 F. 373, 375 (2d Cir. 1920)(copying of pamphlet (continued...)

Despite 150 years of settled contrary precedent, the Eighth Circuit, in West Publishing Co. v. Mead Data Central, Inc.,[12] affirmed, on interlocutory appeal, the district court's award of a preliminary injunction to West, protecting the arrangement, and thereby the pagination, of West's published legal reports.[13]

In reaching its conclusion, the court stressed the minimal amount of creativity required for copyright protection, and, based on this premise, rejected Mead's argument that case arrangement is per se uncopyrightable.[14] Curiously, the West court cited Callaghan v. Myers and Banks Law Pub. Co. v. Lawyer's Co-Operative Pub. Co. for the proposition that case arrangement and pagination are not uncopyrightable. The West court noted that, in Callaghan, arrangement and pagination were included as elements of the whole copyrightable compilation and were, therefore, matters to

[11](...continued) pagination is not infringement).

[12] 799 F.2d 1219.

[13] Mead, a computerized legal research system, proposed to introduce a feature called "star pagination," that keyed its LEXIS system with West's reports, providing jump cites to the location in the West reporter of LEXIS material without the need for physical reference to the West volume. 799 F.2d at 1222.

[14] Id. at 1224 ("An arrangement of opinions in a case reporter, no less than a compilation and arrangement of Shakespeare's sonnets, can qualify for copyright protection").

be considered in an infringement action.[15] Yet, despite the clear language in Callaghan that case arrangement and pagination are not protectible, the West court concluded that "Callaghan establishes at least that there is no per se rule excluding case arrangement from copyright protection, and that instead, in each case the arrangement must be evaluated in light of the originality and intellectual-creation standards."[16]

The Eighth Circuit similarly distinguished the clear holding in Banks, permitting unauthorized reproduction of case arrangement and the use of star pagination, by maintaining that the Banks holding was based on the official status of the court reporter, and not the inherent lack of copyrightability of arrangement and pagination.[17]

As with its citation of Callaghan, the West court's reasoning, here, was equally flawed. Even if a compilation is required by law, unless the particular selection, arrangement or coordination is mandated, or choice is so narrowed that there is

[15] West, 799 F.2d at 1224-25. However, the issues of copyrightability and infringement are two separate inquiries, and elements that may be considered for purposes of substantial similarity -- particularly in the context of compilations, where the factual elements are not protectible -- are not necessarily themselves copyrightable.

[16] Id. at 1225. Although the Eighth Circuit's conclusion that there is no per se rule is technically correct, it ignored the substantive holdings of Callaghan and Banks that arrangement and pagination lack sufficient originality to be copyrightable.

[17] Id.

not sufficient authorship, the work is protectible. Indeed, the Banks court noted that the statute prescribing the reporter's duties did not point out how the cases should be arranged into volumes and printed.[18] Moreover, it was also the duty of the reporter to report on decisions of the Court, and the Banks court correctly concluded that headnotes and syllabuses were entitled to copyright protection.[19] Thus, it was not the official status of the reporter that prevented the Banks court from protecting arrangement and pagination, yet allowed protection of headnotes and syllabuses; it was the lack of copyrightable authorship in the arrangement and pagination.

After construing Callaghan and Banks to mean that there is no **per se** rule that arrangement and pagination are uncopyrightable, the Eighth Circuit concluded that West's arrangement of state and federal court decisions was subject to protection.[20] It then concluded that numbers on pages are not copyrightable, but that "page numbers ... occurring within the body of individual court opinions" are subject to protection.[21] The court reasoned that:

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[18] 169 F. at 390.

[19] Id. at 388.

[20] 799 F.2d at 1226-27.

[21] Id. at 1227.

> The key to this **case, then, is** not whether numbers **are** copyrightable, but whether **the** copyright on the books as a whole **is** infringed by the unauthorized appropriation of these particular numbers.[22]

Logically, however, it is difficult to conceive how the smaller subset of page numbers within court opinions can be protectible, if the larger set of all page numbers is not copyrightable. This inconsistency may be explained by the nature of compilation authorship: the whole is greater than the sum of the parts. But arrangement and pagination contain such minimal authorship that, alone, they do not even rise to the level of original compilation. More likely, the West decision was based on a mixture of "sweat of the brow" copyright protection,[23] equity, and notions of unfair competition relief. Based on its finding of copyrightability, the Eighth Circuit affirmed the lower court's

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[22] Id.

[23] The court noted:

> Id. As MDC points out, the specific goal of this suit is to protect some of West's page numbers, those occurring within the body of individual court opinions. But protection for the numbers is not sought for their own sake. It is sought, rather, because access to these particular numbers -the "jump cites"- would give users of LEXIS a large part of what West has spent so much labor and industry in compiling, and would pro tanto reduce anyone's need to buy West's books.

conclusion that Mead's use of the page numbers would infringe West's arrangement.[24]

Even were sweat of the brow a viable theory of protection for factual works at the time of West, the doctrine has since been eliminated by the Supreme Court's recent decision in Feist Publications v. Rural Telephone Service Co.[25] Although a modest level of creativity is required for copyrightability, a "creative spark" is nevertheless a constitutional prerequisite.[26] And since copyright does not protect facts, a later author may take them with impunity.[27]

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[24] **Id.**

[25] 111 S. Ct. 1282, 1295 (1991)("In summary, the 1976 revisions to the Copyright Act leave no doubt that originality, not 'sweat of the brow,' is the touchstone of copyright protection in directories and other fact-based works. Nor is there any doubt that the same was true under the 1909 Act").

[26] **Id.** at 1287-88.

[27] **Feist**, 111 S.Ct. at 1289 ("[o]thers may copy the underlying facts from the publication, but not the precise words used to present them"); Harper & Row, Publishers v. Nation Enterprises, 471 U.S. 539, 556 (1985)("No author may copyright his ideas or the facts he narrates"); M. Nimmer and D. Nimmer, Nimmer on Copyright §13.03[B][2][b] p. 13.64 ("[F]eist stands for the proposition that even admitted literal copying is not actionable when limited to unoriginal expression"). See 17 U.S.C. §102(b)("In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work").

In Feist, the Supreme Court permitted the admitted verbatim copying of 1,309 of 46,878 white page telephone directory (continued...)

Although facts enjoy no protection, compilations of facts may be copyrighted if they contain originality in selection and arrangement.[28] But the copyright in the whole does not protect every element of the work: factual elements like volume and page numbers, for example, simply contain insufficient originality to warrant protection.[29] And since copyright in factual compilations is extremely thin, a subsequent user is free to take these limited factual elements. In any event, pagination and volume numbers contain no more creativity than the alphabetical arrangement of names in the white page telephone directory that the Court concluded was "not only unoriginal, [but] practically inevitable."[30]

No later case has protected pagination, although West's arrangement of Texas state statutes was the subject of a later declaratory judgment action. State of Texas v. West Publishing

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[27](...continued)
listings because the Court considered them unprotectible facts, not original within the meaning of the Copyright Act and, thus, free for the taking. 111 S.Ct. at 1287.

[28] Id. at 1289 ("The compilation author typically chooses which facts to include, in what order to place them, and how to arrange the collected data so that they may be used effectively by readers. These choices as to selection and arrangement, so long as they are made independently by the compiler and entail a minimal degree of creativity, are sufficiently original that Congress may protect such compilations through the copyright laws").

[29] See Id. at 1296 (selection and arrangement of facts cannot be so mechanical or routine as to require no creativity whatsoever) and 1290, 1294 (selection, coordination and arrangement must be original to be protectible).

[30] Id. at 1297.

Co.. [31] But since the Fifth Circuit found that there was no actual controversy, the state's action was dismissed on procedural grounds, and the court never reached the copyright issue. [32]

ANALYSIS OF H.R. 4426

H.R. 4426 was introduced by Representative Barney Frank, and referred to the House Judiciary Committee on March 11, 1992. The bill would add three additional clauses to section 105, which now provides that there is no copyright protection for works of the United States Government, but permits the transfer of copyrights to the Government. [33]

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[31] 882 F.2d 171 (5th Cir. 1989).

[32] Id. at 175. In 1925, the Texas legislature revised its
laws into three major areas: civil, criminal and criminal procedure
statutes. However, several changes and additions were not given
placement designations and had to be arranged within West's
existing annotated statutes, Vernon's Annotated Revised Civil
Statutes. 882 F.2d at 173. West identified the new statutes
without placement designation by a 1925 article or section number,
and a West-generated identifier. It claimed copyright only in the
Vernon arrangement, not in the text, official compilation or other
arrangement of the statutes. Id. at 173-74.

Concluding that Texas engaged in limited noncommercial
publishing for intergovernmental use of pamphlets containing
portions of Vernon's, and that there was no evidence that the state
intended to engage in commercial publication, the Fifth Circuit
held that Texas's interests were not adverse to West's, and that
declaratory judgment could not be entered. Id. at 175.

[33] Section 105 currently reads:

> Copyright protection under this title is not available for any work of the United States Government, but

(continued...)

The legislation's first clause would prohibit copyright protection for names, numbers, or citations for state and federal laws and regulations. The second would prohibit protection for volume or page numbers of state or federal regulations and judicial opinions. The final provision would clarify that states could continue to charge reasonable fees for making available laws, regulations and judicial opinions.

H.R. 4426 would also expand the scope of section 105 from "United States Government works" to "United States Government and other works" -- the "other works" presumably being state laws, regulations and judicial opinions.

COPYRIGHT OFFICE OBSERVATIONS

H.R. 4426 clearly exempts from copyright protection the names, numbers and citations of state and federal laws and regulations, as well as the volume and page numbers of state and federal regulations and judicial opinions. It is not clear, though, what effect it would have on other factual works.

In application, H.R. 4426 is probably only relevant to factual works, since the exempted factual elements have no

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[33](...continued)

> the United States Government is not precluded from receiving and holding copyrights transferred to it by assignment, bequest, or otherwise.

17 U.S.C. §105.

proprietary significance with works of fiction. Thus, the problem that the bill seeks to remedy is confined to uses where the names, numbers, citations, and volume and page numbers have proprietary import. Outside of contexts where there is use of an official format -- and the elements thereby become valuable -- the bill has limited application, and this narrow drafting is probably adequate. Moreover, because the scope of fair use is broader with factual than fiction works, the mere taking of these limited elements would be permitted.[34]

Assuming sufficient originality, compilations of legal headnotes, syllabuses and factual summaries, are clearly eligible for copyright protection. However, since the underlying facts are not protectible, the compilation of factual elements must contain adequate original selection, coordination and arrangement to be protectible. Under existing precedent before *West*, and certainly after *Feist*, compilations of names, numbers, citations, and volume and page numbers of state and federal laws, regulations and judicial opinions, are not copyrightable. Representative Frank's bill would clarify that these public domain elements are meant to be freely accessible, and not subject to proprietary rights that inhibit use, research, or other access.

The Copyright Office has some concern that the bill addresses a concern that the courts themselves will sort out given

[34] *See* *Harper & Row*, 471 U.S. at 563.

time. It may be unnecessary legislation since the matter covered by H.R. 4426 -- names or citations of state and federal laws and regulations; volume or page numbers of state and federal regulations and judicial opinions -- is uncopyrightable under existing law, especially post-*Feist*. If Congress decides that clarification of the law by legislation is appropriate, the Office urges that the legislative history make very clear that this bill merely clarifies existing law, with respect to both legal and nonlegal materials.

Finally, if Congress decides to act, amendment of section 102 rather than section 105 should be considered. The matter covered by the bill is uncopyrightable in the case of nonlegal as well as legal materials. Therefore, the general subject matter section of the Copyright Act could be amended instead of the government works section, which now relates only to the federal government.

Thank you. I will be pleased to respond to your questions.

Mr. HUGHES. Has the Copyright Office issued a certificate of registration to West Publishing for its national reporter system as a whole?

Mr. OMAN. Yes, we have and we continue to do so. The work as a whole is given a copyright certificate.

Mr. HUGHES. Has the Copyright Office issued certificates of registration to the West Publishing Co. for individual volumes of judicial reporters?

Mr. OMAN. We do issue certificates of registration for individual volumes, if they are submitted in that way. The volume itself represents a work of authorship. It includes the headnotes, and other original elements, not just the pagination and the arrangement of the cases.

I should add that many of the things that West does—for instance, the "Fed. Supp."—require a great deal of original selection of cases. Very few of the district court cases are actually published by West, and that selection by West is entirely copyrightable under the copyright law.

Mr. HUGHES. Any other areas, in your judgment, that are copyrightable to West Publications? Page numbers?

Mr. OMAN. I suspect there——

Mr. HUGHES. Are page numbers copyrightable?

Mr. OMAN. Under the rules of the Copyright Office, we don't register individual elements of a work; we register the one work and that registration covers the copyrightable elements. If someone were to specify page numbers, we would request that they change the authorship statement on the application form.

Mr. HUGHES. I see. Star pagination, copyrightable?

Mr. OMAN. No, that would not be.

Mr. HUGHES. In your view, what do the certificates of registration for each judicial opinion cover besides what we just talked about?

Mr. OMAN. It covers the work as a whole, and I think that there is certainly sufficient authorship involved with the works produced by the West Publishing Co.

Let me ask Ms. Schrader to add anything that she might have in mind.

Ms. SCHRADER. In addition to selection, it's possible that the arrangement of the cases in the sense of one case in relation to another, not the breakdown of pages or the pagination, but the arrangement, or the ordering of the cases, might be the basis of originality.

The Copyright Office doesn't really take a position on that because we haven't really required West or any other legal publisher to specifically indicate the basis on which they have ordered their cases. But if the work is ordered on the basis of some arbitrary criteria, such as the subject matter or the importance of the case, possibly that might be an element of originality, especially if there is significant originality in the selection of the cases. As Mr. Oman said, each of these publications tends to have clearly copyrightable authorship, such as the headnotes, and the Copyright Office then doesn't go any deeper into the claim in deciding to make registration. We would exclude pagination, if that element were specifically [illegible]

Mr. HUGHES. The gentleman from California.

Mr. MOORHEAD. *West* v. *Mead* made clear, and I quote, that "Protection for the numbers is not sought for their own sake. It is sought rather because access to these particular numbers to jump cites would give users of Lexis a large part of what West has spent so much in labor and industry and compiling. It would pro tanto reduce anyone's need to buy West books. The key to this case then is not whether numbers are copyrightable, but whether the copyright on the books as a whole is infringed by the unauthorized appropriation of these particular numbers. We, therefore, hold that the *West* case arrangements, an important part of which is internal page citations, are original works of authorship entitled to copyright protection."

Do you disagree with this holding?

Mr. OMAN. We do disagree with that holding in the Copyright Office, and we think that the Supreme Court in the *Feist* decision would agree with our determination of the state of the law.

Mr. MOORHEAD. That basically dealt with the telephone book, didn't it?

Mr. OMAN. Yes, sir.

Mr. MOORHEAD. It ruled that the telephone book was not an original work. West tries to say that they differ substantially from the automatic listings in the telephone book. What I'm trying to get at, and I think some of us are unclear just exactly what does this bill do. Does it do anything? Does it change what you think is the present interpretation of the Court? If it doesn't, is it necessary. If it does, exactly what does it change?

Mr. OMAN. It does clarify what we consider to be the existing state of the law on the point of requirement of authorship and originality in a compilation. West does far more than the compilers of a telephone book do, and those things are copyrightable and protectable. The page numbers, however, which are so inevitable, don't rise to the level of being the creative spark that the Court requires in applying copyright protection. The volume itself, which is the work product of the employees of the West Publishing Co., is copyrightable under the U.S. copyright law.

Mr. MOORHEAD. I wonder for our own use and better understanding if you could, when you get a little time—and I know you don't get much spare time—but could you give us a 1-page or 2-page report on just exactly what is copyrightable under West system and what is not?

Mr. OMAN. I'd be happy to do that.

Mr. MOORHEAD. I have to admit it's a little bit unclear to me, and what I would like to know specifically is what this bill changes, if anything, in those lists that you might compile about what is and what isn't, because I'd like to know what we're doing.

Mr. OMAN. We'd be happy to do that, sir.

[The information follows:]

A publisher of legal reference works like West Publishing publishes a variety of legal materials. Publications range from original legal treatises to compilations of statutory or decisional materials. The compilations may be annotated or otherwise edited. The nature of copyrightable authorship therefore varies depending upon the nature of the legal reference work.

In the case of a compilation of judicial opinions, as a general rule, the copyright protects the original authorship, if any, in the selection, arrangement, or coordination of the opinions, any original headnotes or other annotations by the publisher, any other original writings such as introductory or explanatory text, and possibly the overall editing of the publication, if the editing rises to the level of creative expression. The text of the judicial opinion itself is not subject to copyright. Page or volume numbers or the typographical arrangement or breakdown of pages should not be copyrightable based on the Supreme Court decision in Feist v. Rural Telephone.

Beyond these few points, further generalizations are probably not helpful. For a given compilation of judicial opinions, originality may or may not be found in the selection or arrangment of the cases. Generally, if a relatively few items are selected from a large universe, the judgment and discretion involved in making the selection constitutes original expression. Or, if the opinions are arranged within the publication on the basis of arbitrary criteria such as subject matter or precedential significance, that arrangement constitutes original expression.

Mr. MOORHEAD. Professor Joyce will testify this morning that *West* v. *Mead* was wrongfully decided and that this case clearly overrules that case. You, obviously, agree with that. Professor Denicola disagrees with Joyce and believes that *West* v. *Mead* was correctly decided. He says in his testimony, "The only use that would involve an infringement of the protected selection and arrangement of cases is the publication of a competing compilation of cases that copies the overall selection and arrangement of cases from the first compilation. The dispute to which H.R. 4426 responds does not in any real sense involve public access to the law. It is a commercial dispute between a small number of publishers in the business of marketing compilations of cases and statutes. There is nothing unique about this particular dispute that justifies or requires special legislation of the kind presently before the subcommittee."

Is there any truth to what the professor is saying?

Mr. OMAN. Well, that always is the risk you run, when you strike down protection for something that takes a lot of time and effort and money to produce. I suppose if there wasn't a tremendous amount of cross-subsidy in the production of the telephone books after the *Feist* decision, very few people would produce telephone books unless they were required to by law in exchange for their monopoly rights as a telephone company.

In this case, I think that there is some danger of West not continuing to do what they're doing, if someone can just rip them off after all the time and effort they spent producing the work, but I think that does not necessarily follow because so much of what they do is unique and valuable and copyrightable. Someone who is just photoreproducing their work product would have to block out all that copyrightable material, and what they would be left with probably wouldn't be all that useful and probably wouldn't be that marketable, so people would still continue to buy the West Publication.

Mr. MOORHEAD. Should *West* v. *Mead* have been decided as a fair use case, not just a straight copyright case?

Mr. OMAN. I suppose it could have been decided as a fair use case, and that theory I don't think was pursued in the courts. Ms. Schrader says that the district court considered that theory but rejected it, but I would think that it would be a perfectly respectable theory to pursue. Whether or not the courts would buy it is another question.

Mr. MOORHEAD. I guess this is an interesting subject because most of us that are lawyers grew up with West in our youth at least, and it's something that's been with us for a long time. This does appear to be a major change in what has been held through the years.

Mr. OMAN. It would have been a closer question before the Supreme Court spoke so authoritatively in the *Feist* decision when Justice O'Connor struck down this type of "sweat-of-the-brow" compilation in itself as qualifying for copyright protection.

Mr. MOORHEAD. *West* v. *Mead* never went to the Supreme Court though?

Mr. OMAN. No, it didn't.

Mr. MOORHEAD. Thank you.

Mr. FRANK [presiding]. Thank you.
I don't think—I know the chairman and the ranking minority member both referred to the familiarity of the members with the product that we're talking about here. In the cases of a number of us, I think that is a receding familiarity. I don't know that too many members have been in the books that much lately.

[Laughter.]

Mr. MOORHEAD. That's true.

Mr. FRANK. We may have seen a highlighted Xerox of a page or two from time to time, but I don't think that there's been much work.

[Laughter.]

Mr. FRANK. I appreciate your discussing the law, and obviously one of the functions is to clarify this legally one way or the other. I think that's one of the things that makes me think we ought to look at this, because it is not useful to have the law unsettled. I think you've covered that well.

But let me ask now about the public policy implications, because obviously we're dealing here with a statutory fact, so that I assume people who might even agree with you as to the implication of the *Feist* decision might then think that we should act statutorily to overturn that. What's the public policy implications? Assuming either that we pass this bill or that you are correct in your interpretation of what the Court would do, the Supreme Court, what then happens? Would West stop doing this, do you think?

Mr. OMAN. That is the public policy consequence that you've got to look at very closely. If West stops doing this and they've got to be printed at public expense, that's certainly a——

Mr. FRANK. I understand that, but the question is, do you think West would?

Mr. OMAN. I don't think so because they're so embedded in the legal system. People have become so familiar with them and they're relied on so heavily. Their keynotes and other explanatory information are so valuable and so heavily relied on that they will continue to prosper. They'll continue to be a major contributor to charities in the State of Minnesota and around the country; and they will not suffer an economic reversal as a result of this decision.

Mr. FRANK. I don't suppose copyright has ever been made conditional on a certain level of charitable contribution. Probably not.

[Laughter.]

Mr. OMAN. Not to my knowledge.

Mr. FRANK. That's probably not a constitutional condition.

In other words, your view is that the indisputably copyrightable elements of West that would not be affected either by a Supreme Court decision in the phone company case or this bill would continue to guarantee them, or not guarantee them but provide them incentive, the people who would still want it?

Mr. OMAN. That is the case. Of course, I am thinking of today and the immediate future, where people still rely on the printed books, the volumes that sit on the shelf. You might want to take a closer look at what the implications will be 20 years down the road when we're entirely in——

Mr. FRANK. That was my next question: What are the implications of this both contemporaneously and even more so in the future for computer technology if we were to pass this bill? Your view, of course, is that we wouldn't be changing the law much, but if the public policy that is embodied in this bill were to become the law of copyright, either through a Supreme Court decision that went the way you think it would go or by this bill, what would the implications be for nonprinted works in terms of copyright? Would it have any negative or positive effects?

Mr. OMAN. It could have an effect not just limited to the West and Mead situation, but the access of people to data bases in other contexts. This could have a strong bearing on that situation. I would be reluctant to make a prediction what the electronic medium is going to be like 20 years down the road. Maybe Ms. Schrader would be a little bit——

Mr. FRANK. Yes, because particularly I think we want to very clear that we don't weaken, and there is this constant tension on what we do now, which is to look at the printed works and make sure that we don't do anything that's aimed at printed works that would have a negative effect with regard to electronics. Ms. Schrader.

Ms. SCHRADER. Well, my opinion is, no, there wouldn't be that negative effect, even with computer technology. The bill covers very narrow elements—names, volume designations, page numbers, and so on. It's been our view in the Copyright Office that those elements are not copyrightable, and but for the decision of the eighth circuit in *West* v. *Mead,* we don't think there would have been a question about that. In deciding *West,* the court we think ignored earlier precedent, including a Supreme Court decision from the 19th century, *Callaghan* v. *Myers.*

So we don't think there would be that negative impact. If there is a problem in the future, then possibly one turns to some other kind of intellectual property relief, other than a 75-year copyright term in page numbers.

Mr. FRANK. You mention that the Copyright Office says that the eighth circuit case was incorrectly decided. Prior to that decision, was the Office following a different policy?

Mr. OMAN. We do not change our policy as a result of one decision in one circuit.

Mr. FRANK. So you don't follow that? What's the effect of the decision on Copyright Office policy?

Mr. OMAN. If West were to submit an application for registration of page numbers in their Federal citators, their Federal reports, we would not register——

Mr. FRANK. But, as you said, you don't get a piece-by-piece copyright. If you can get the whole thing copyrighted, you would do that. But, in other words, your view is that you're not bound by what one circuit did?

Mr. OMAN. No.

Mr. FRANK. Unless, I assume, it was a D.C. circuit, which you might be more bound, unless you move to some other——

Mr. OMAN. Or the second circuit. Some circuits speak more authoritatively on the subject of copyright than others, but, as a general rule for something like this, we would wait for more of a consensus to build around the country.

Mr. FRANK. So you're not now—you do not consider yourself bound by the eight circuit decision?

Mr. OMAN. No, we don't.

Mr. FRANK. OK. Mr. James.

Mr. JAMES. I'm sort of fascinated by this. It seems to me this was resolved in court and involves primarily two parties. So it seems to me that what Lexis is perhaps attempting to do is to obtain a special act, in effect, to relieve themselves from their settlement and perhaps their court judgment that they effectively lost. How perhaps am I in error in that assumption or statement?

Mr. OMAN. The licensing arrangement that Mead entered into with West after the decision in the court case in Minnesota gave them access to the materials that they needed to continue doing what they were doing. I would suspect that after the *Feist* decision they would—I don't know what the terms of the license were—be on much surer grounds to dispense with the license and do what they wanted to without authorization from West. Maybe they're being congenial; maybe they're being cautious. They're continuing to operate under the license to do what they want to do.

Mr. JAMES. Well, who else does it involve besides West and Lexis? I know in theory it can cover a lot of people, but was it drafted specifically because of the license obligation and payments by Lexis in relationship to West? Is that your conclusion?

Mr. OMAN. I think there was a genuine lack of clarity in the minds of some people as to what the law permitted.

Mr. JAMES. Wasn't the court pretty clear?

Mr. OMAN. The court was, but that was just one circuit. It has not been repeated in other circuits around the country, and in many ways there seems to be a consensus building the other way, that the eighth circuit decision wasn't necessarily the ideal decision; that it swept too broadly and that it should have been more narrowly refined.

Mr. JAMES. What we're dealing with here is West has a particular system of headnotes, where in a case they will sit down and describe the case in a synopsis form in front of every case. They have done it for years, and they have a key system that keys it to that interpretation of their lawyers or their researchers.

Mr. OMAN. Absolutely.

Mr. JAMES. And corpus juris surcumdum and most texts give you a *West* case cite number that prior to computers was a way, a device, to get into the case law regardless of the text that you were using; is that correct?

Mr. OMAN. That is correct, and all that, the material that you've just mentioned—headnotes and the key system notes—are protectable under the copyright law.

Mr. JAMES. Right.

Mr. OMAN. No one can copy it; no one can commercially exploit it.

Mr. JAMES. But when you get into the computer systems, what you, in effect, are doing is using that copyrightable material, and the issue is whether or not you pay a license for the use and the reference to those numbers; is that the issue?

Mr. OMAN. What Mead wants to do is just to use the page numbers, so they can use the West system of citation, which is required

by the U.S. court system. It's the page numbers, not the original material in the case notes or the keynotes or the summations of the——

Mr. JAMES. But, rightfully or wrongfully, a court has ruled in that specific case, a district court, and it hasn't gone to the Supreme Court; is that correct?

Mr. OMAN. It was in the circuit court in the eighth circuit, but it was not taken by the Supreme Court.

Mr. JAMES. Either side, they worked out an agreement?

Mr. OMAN. They worked——

Mr. JAMES. Did they not?

Mr. OMAN. Yes.

Mr. JAMES. OK, but it still boils down to the only reason it came up is because of Lexis and West having an agreement; is that true or not? Who are the other parties that are interested in this, other computer people that want to use the West system or——

Mr. OMAN. I'm not aware of any other parties, Mr. James, that are involved, but I suspect it has broader implications. There are other people that would want to jump in and do what Mead is doing, if it were authorized clearly by this law or by subsequent court decision.

Mr. JAMES. Is that a legitimate suspicion that I might have, though, that we're, in effect, dealing with a special act that is really designed to interfere with the specifics of a particular judgment, even though it's couched in general terms? Is that a legitimate suspicion?

Mr. OMAN. I would say not in terms of the reason we're here today and why the bill was introduced. There is a genuine concern that the type of citations and page numbers that are so important to our judicial system not be monopolized by one individual company, but that there be general access across the board in the interest of having an open society.

Mr. JAMES. We're only dealing with page numbers?

Mr. OMAN. Only with page numbers, but by locking in the page numbers and by allowing another company to use those page numbers, you're effectively encouraging other people to do what the originator did more cheaply. So it has important public policy implications.

Mr. FRANK. Mr. James, are you finished?

Mr. JAMES. Thank you very much.

Mr. FRANK. I will briefly recognize myself, because the gentleman was asking a question of the Register that would have been more appropriately directed to me. I would say, yes, it was a court decision which provoked this. I would say about a third of the legislation that this committee deals with is a result of court decisions. Most recently, the subcommittee which I Chair is dealing with legislation that was filed to overturn a couple of circuit court decisions that were filed by the Justice Department of the United States of America, which didn't like a couple of circuit court decisions regarding the right of Federal employees to bring qui tam suits. So, yes, as is often the case when a statutory interpretation is rendered by a court, people who think that the decision is poor public policy resort to legislation and the notion that a specific court decision has triggered it is both accurate and fairly routine.

Mr. JAMES. Precisely a legitimate point, and that's why I was asking what other people are involved, other than the two parties to that transaction. It may well be that this is general language——

Mr. FRANK. Yes. Oh, yes.

Mr. JAMES [continuing]. And that it applies in a general sense. It's not like naming the parties, as some bills do.

Mr. JAMES. No, it's a general bill.

Mr. JAMES. But I think that's the whole point: it's not just that one case. If it were, indeed, we probably couldn't do it; it would probably be unconstitutional if we were trying to interfere with a court ruling as it relates only to two parties, but we're not here.

Mr. FRANK. It's a statutory interpretation.

Mr. JAMES. Yes, but what I'm trying to determine is: Are we in substance doing that? Apparently, we're not, but I want to see what other companies are involved. In other words, obviously, there are two companies that are primarily involved.

Mr. FRANK. In fact, I must say my own concern in part is what are the broader implications, As we said, whenever we do do this, we clearly have a broader implication we want to look at.

Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman.

Mr. Oman, just one question. I'm a bit puzzled by your emphasis on page numbers. Has West Publishing Co. ever asked for registration to cover page numbers?

Mr. OMAN. No, they haven't, to my knowledge, and I didn't mean to suggest that they did. They do seek registration for the work as a whole, and I suspect they never would request the specific protection for the pagination in seeking registration.

Mr. RAMSTAD. Mr. Chairman, another question: Mr. Oman, I'm also a little bit puzzled. It's true, I haven't even revisited copyright law for quite some time. I certainly never practiced in that area, but I'm trying to ascertain the problem which this proposed solution is trying to fix in a general sense, as a followup to my colleagues' questions.

Based on the registrations in your office and your general knowledge, is there a problem as to the availability of this kind of material?

Mr. OMAN. I think clearly the material is available, and it seems to be fulfilling the need of the users. It is available in several formats now. It's available in book form. It's available on line from the electronic data bases. So, to answer your question, there is no problem that we see, that the material is widely available.

Mr. RAMSTAD. Thank you, Mr. Chairman.

Mr. FRANK. Let me say, I wonder if the gentleman would allow me for a minute, counsel has brought to my attention on page 5 of the complaint filed by West, under count I, copyright infringement, point 23, "Each volume of West National Reporter System Publications contains material wholly original to West, including editorial features, enhancements, arrangements of reports, and the numbering and paging of volumes, all of which is copyrightable subject matter." I think it should have been "all of which are copyright subject matter," but that's not a major problem.

But it does, at least in the complaint, West was asserting that the paging was a separate copyrightable item. So while it hasn't been registered there, that has been a claim that was made and that was in the litigation.

Mr. Coble.

Mr. COBLE. Thank you, Mr. Chairman.

Mr. FRANK. Let me just ask: Do you want to go to vote now or do you want to take your questions?

Mr. COBLE. I will be very brief.

Mr. FRANK. All right, then we'll finish.

Mr. MOORHEAD. This isn't a vote; this is a quorum just before we go into session.

Mr. FRANK. Oh, the light's out. I see two lights.

Mr. MOORHEAD. Yes, we have 15 minutes before we go into session.

Mr. FRANK. Oh, OK. They've got to fix the lights here.

Mr. Coble.

Mr. COBLE. Thank you, Mr. Chairman.

Mr. Oman, did you earlier say, in response to a question—that it was your belief that West would not suffer economically? Did I hear you correctly on that?

Mr. OMAN. I do think that they can protect their market niche, if that's what you want to call it, based on the other important contribution they make in the volumes that we do register for copyright. Their headnotes are valuable; their case summaries are valuable; the whole organization of the legal reporting system is valuable.

Even though they won't be able to prevent someone from using their citations or cross-referencing their page numbers—so people can use a competing service—I suspect that they will continue to prosper.

Mr. COBLE. From a practical point of view, do you see any reason for this legislation? That is to say, is there currently a problem, to your knowledge, and based on registrations in your office, with the availability of this kind of material?

Mr. OMAN. I think the bill might have been more useful prior to the Supreme Court's decision in the *Feist* case, which made clear in my mind that those efforts, that we call "sweat-of-the-brow," are not sufficient to justify a claim to copyright. Under the law prior to the Supreme Court decision, West could have claimed that the effort involved in pagination, the arrangement of the cases, and the volume numbers was entitled to copyright protection.

But the Supreme Court in the *Feist* case made clear that that type of effort is not subject to copyright protection. So I will say that the requirement for the clarifying law today is not as great as it would have been last year.

Mr. COBLE. One final question, Mr. Chairman. Without the protection currently afforded to unofficial compilers of legal and statutory materials, do you believe that such private publishers would still have the incentive to publish?

Mr. OMAN. That's an important policy question that you've got to consider. We wouldn't want to force West to abandon this effort because people are going to copy them whenever they produced a volume and destroy their market. I would think that would be one of your considerations. If the Government had to pick up the tab because West couldn't subsidize this service through sales of volumes, that might be something you would want to consider.

Mr. COBLE. Thank you.

Mr. MOORHEAD. Would the gentleman yield for a question?

Mr. FRANK. I recognize the gentleman.

Mr. COBLE. Thank you, Mr. Chairman.

Mr. MOORHEAD. One thing, this is a new area for many of us, and really we haven't zeroed-in on this. I'd like to know what the difference in size of the combatants. Is Lexis about the same size as West and doing about the same amount of work, or what?

Mr. OMAN. I don't know the combatants personally. I didn't even know that an English lord was the head of Mead Data. It's not like we're dealing with two vastly disparate entities, one with tremendous economic power and the other with very little. I would say they're able to negotiate on equal terms with equal economic power.

Mr. MOORHEAD. Thank you.

Mr. FRANK. I would say, given the Constitution which is still in effect in this regard, since we are, I think, estopped from granting titles of nobility, that one we won't be able to address; we'll have to try to equalize it in other ways. But there's no way we can make the head of West a baron because I think constitutionally Congress is not allowed to grant titles of nobility—or a letter of mark and reprisal. So he couldn't get even that way.

[Laughter.]

Mr. FRANK. That is a vote. So we're going to take a break. We will come back.

Is everyone through? Can we let the Register and Ms. Schrader leave? Then we will come back with our next panel. We'll take a quick break.

Mr. OMAN. Thank you, Mr. Chairman.

[Recess.]

Mr. HUGHES. The committee will come to order.

Our first panel consists of two very distinguished professors of law who specialize in copyright law. Prof. Craig Joyce is professor of law at the University of Houston Law Center and codirector of the University of Houston Intellectual Property Law Institute. Professor Joyce is also very active in the field of legal history, including the American Society for Legal History and in his role as an editor for the Journal of Supreme Court History.

Mr. Joyce, if you'll come forward, we'd appreciate that. We welcome you.

I might also add that Professor Joyce is the original and lead author of a case book on copyright law and of numerous articles on copyright law and legal history.

Professor Denicola is Margaret Larson Professor of Intellectual Property at the University of Nebraska School of Law. He is the coauthor of a treatise of copyright law. I guess the West and Thomson witnesses are not the only competitors in the legal field appearing before us today. Professor Denicola has written extensively on copyright law, and since 1986 has been one of two reporters for the American Law Institute's forthcoming "Restatement of the Law and Unfair Competition." We welcome you.

Both professors had articles cited by the Supreme Court in the *Feist* opinion, I might say. We welcome both of you here today. We're so happy you could come such a long distance to be with us today.

We have your statements, which we've read and which will be made a part of the record, without objection, and you may proceed as you see fit. Why don't we begin with you, Professor Joyce? Welcome.

STATEMENT OF CRAIG JOYCE, PROFESSOR OF LAW AND CODIRECTOR, INTELLECTUAL PROPERTY LAW INSTITUTE, UNIVERSITY OF HOUSTON LAW CENTER

Mr. JOYCE. Mr. Hughes, Mr. Frank, members of the committee, thank you for having me.

I support H.R. 4426 enthusiastically.

With respect to the terms of the bill, what I have to say about its drafting is contained in my prepared statement.

My view on the merits is that, but for the eighth circuit's 2-to-1 decision in *West Publishing* v. *Mead Data Central*, few today would seriously argue that the identifying matter of the sort targeted in the bill—not the headnotes and other concededly original matters discussed by Mr. James, but volume and page numbers—could be protected by copyright law. Indeed, if this bill were to be turned inside out and this committee were to attempt to protect that matter affirmatively, I think the legislation would contradict existing provisions of the Copyright Act, exceed the powers vested in Congress by the copyright clause of the Constitution; and run afoul of the Supreme Court's decision in *Feist Publishing* v. *Rural Telephone*.

The *Mead* case, however, is still very much alive. *Mead* itself was settled. It is now beyond review. Attempts to undo *Mead* in the courts have failed and will fail, for the reasons noted in my statement. There is no realistic prospect that subsequent judicial decisions will create a split in the circuits or that the matter will be otherwise brought to the Supreme Court for its scrutiny. Thus, the error in *Mead*, the misbegotten notion that the identifying matter of public domain documents can be owned by a private publisher, must be corrected, if at all, by Congress.

The two key issues confronting the subcommittee in deciding whether to recommend passage of H.R. 4426, in my view, are: First, are page and section numbers, et cetera, which identify laws, and so on, protectable at all under standard principles of copyright law? My answer is no. And, second, even if such identifying matter were otherwise protectable, should protection be withheld by Congress in order to enhance access to public domain documents to whose location the identifying matter refers? My answer to that question is yes.

On the issue of nonprotectability, I believe that the identifying matter of public domain documents protected by *Mead*, or sought to be protected by its authority, fails the most basic prerequisite of copyrightability; namely, the authorship or originality test. That requirement is constitutionally mandated. The Supreme Court said in *Feist* the mere fact that a work is copyrightable does not mean that every element of the work may be protected. Copyright protec-