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ABOUT THE SEVENTH CIRCUIT REVIEW

Purpose

The SEVENTH CIRCUIT REVIEW is a semiannual, online journal dedicated to the analysis of recent opinions published by the United States Court of Appeals for the Seventh Circuit. The SEVENTH CIRCUIT REVIEW seeks to keep the legal community abreast of developments and trends within the Seventh Circuit and their impact on contemporary jurisprudence. The articles appearing within the SEVENTH CIRCUIT REVIEW are written and edited by Chicago-Kent College of Law students enrolled in the SEVENTH CIRCUIT REVIEW Honors Seminar.

The SEVENTH CIRCUIT REVIEW Honors Seminar

In this seminar, students author, edit, and publish the SEVENTH CIRCUIT REVIEW. The REVIEW is entirely student written and edited. During each semester, students identify cases recently decided by the Seventh Circuit to be included in the REVIEW, prepare initial drafts of case comments or case notes based on in-depth analysis of the identified cases and background research, edit these drafts, prepare final, publishable articles, integrate the individual articles into the online journal, and "defend" their case analysis at a semester-end roundtable. Each seminar student is an editor of the REVIEW and responsible for extensive editing of other articles. Substantial assistance is provided by the seminar teaching assistant, who acts as the executive editor.
The areas of case law that will be covered in each journal issue will vary, depending on those areas of law represented in the court's recently published opinions, and may include:

- Americans with Disabilities Act
- antitrust
- bankruptcy
- civil procedure
- civil rights
- constitutional law
- copyright
- corporations
- criminal law and procedure
- environmental
- ERISA
- employment law
- evidence
- immigration
- insurance
- products liability
- public welfare
- securities

This is an honors seminar. To enroll, students must meet one of the following criteria: (1) cumulative GPA in previous legal writing courses of 3.5 and class rank at the time of registration within top 50% of class, (2) recommendation of Legal Writing 1 and 2 professor and/or Legal Writing 4 professor, (3) Law Review membership, (4) Moot Court Honor Society membership, or (5) approval of the course instructor.
PREFACE

I have had the honor of being involved in the SEVENTH CIRCUIT REVIEW over the past three semesters, and since its inaugural issue—first as a student in the honors seminar writing a critique of a First Amendment case, and then as Executive Editor/Teaching Assistant facilitating the publication of the REVIEW. We began as a class of thirteen curious students spending hours on the task of drafting the “purpose” and explanatory statements of the SEVENTH CIRCUIT REVIEW. We discussed, grappled with, shaped, and perfected each and every word in those two paragraphs so as to guide future seminar students and inform the prospective REVIEW readers. Since then, twenty-seven more students have built upon that mission statement and put forth scholarly articles of their own in response to recent Seventh Circuit decisions.

For me, what has been the most amazing part of these past three semesters is that, at this point, as we publish Volume 2, Issue 2, our student authors are explicitly citing to the work of other SEVENTH CIRCUIT REVIEW Honors Seminar students, building upon and expanding upon the research and analysis of their predecessors and peers. And these students are not the only ones to find the SEVENTH CIRCUIT REVIEW’s articles to be valuable legal discussions. Web track reports confirm that the REVIEW is being downloaded on a regular basis, and in great numbers. And I am quite confident in predicting that the readership of the SEVENTH CIRCUIT REVIEW is only bound to increase. Recently, Chicago-Kent College of Law signed licensing agreements to make the REVIEW available on LexisNexis and Westlaw. Indeed, the SEVENTH CIRCUIT REVIEW is here to stay, and I
now know that the tedious hours my first class spent perfecting the REVIEW’s mission statement were well worth it.

Before I step down as Executive Editor/Teaching Assistant and pass on the torch to Justin Nemunaitis, I would like to thank several people who have been central to the success of the SEVENTH CIRCUIT REVIEW. First, I extend my gratitude to Dean Harold Krent and the Chicago-Kent College of Law Curriculum Committee for their support of the honors seminar and publication, and for providing Chicago-Kent students with this excellent opportunity to author, edit, and publish this scholarly journal. Next, I thank John Young and Sarah Cnota of the Chicago-Kent College of Law Office of Public Affairs who are truly invaluable in the quick turn around and publication of the articles, and who have made this whole process as easy and streamlined as possible. Finally, and most importantly, I would like to thank Professor Hal Morris for his strong commitment to the SEVENTH CIRCUIT REVIEW and his undying loyalty to Chicago-Kent College of Law. This journal is a true testament to what Chicago-Kent students are capable of doing—notably, the high level of scholarly analysis they can achieve in just a semester’s time. Thank you, Professor Morris, for challenging us, supporting us, enabling us, and truly enhancing our law school experience by bringing the REVIEW to life.

Though I am shortly ending my run as Executive Editor of the SEVENTH CIRCUIT REVIEW, I know this will not end my relationship with the journal. Though I will no longer be writing, editing, citing, and publishing for the REVIEW, I certainly will become a regular reader now and in the future. And, now, I hope you enjoy reading this issue as much as I have enjoyed being involved with the SEVENTH CIRCUIT REVIEW over the past three semesters.

Warmly,

Julia R. Lissner
Executive Editor, SEVENTH CIRCUIT REVIEW
RELAXING THE NOOSE AROUND TYING ARRANGEMENTS: REIFERT V. SOUTH CENTRAL WISCONSIN MLS CORP. EXPOSES PROBLEMS WITH THE PER SE ANALYSIS

PAUL C. MALLON, JR. *


INTRODUCTION

The U.S. Supreme Court defined the elements for per se condemnation of tying arrangements in Jefferson Parish Hospital District No. 2 v. Hyde1 and reaffirmed the Jefferson Parish majority’s framework in its recent Illinois Tool Works, Inc. v. Independent Ink, Inc. decision.2 Shortly after Jefferson Parish, however, the Seventh Circuit modified the Supreme Court’s test by adding an entirely separate element, the “economic interest requirement,” that plaintiffs must show for the court to condemn a tying arrangement as illegal per se.3 Subsequently, the Seventh Circuit rethought this revision of

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1 466 U.S. 2 (1984)
2 126 S.Ct. 1281 (2006) (concluding that tying arrangements involving patents “should be evaluated under the standards applied in . . . Jefferson Parish”).
Supreme Court doctrine, and criticized the implementation of the economic interest requirement under the *Jefferson Parish per se* tying framework.\(^4\)

In June 2006, however, Judge Flaum’s majority opinion in *Reifert v. South Central Wisconsin MLS Corp.* reasserted the economic interest requirement as a prerequisite to finding a tying arrangement illegal *per se*.\(^5\) Concurring in *Reifert*’s outcome, Judge Wood explained that the majority was improperly anticipating the Supreme Court’s overruling of prior precedent.\(^6\) This Comment analyzes the propriety of the economic interest requirement in the Supreme Court’s *per se* tying analysis and concludes that the *Jefferson Parish* majority does not endorse its implementation as a requisite for a tying violation. Additionally, the Supreme Court’s *per se* tying analysis’s ability to achieve the goals of an antitrust *per se* standard is examined, resulting in a prediction that the *per se* analysis will be abandoned in the future.

The *per se* analysis in tying arrangements is not as straightforward as the *per se* analysis in other areas of antitrust law.\(^7\) As a result, this Comment begins in Part I with an assay into the history of the Supreme Court’s treatment of tying arrangements and the circuit courts’ implementation of the economic interest requirement into the *per se* tying analysis. It continues in Part II with an explanation of the majority and concurring analyses of tying arrangements in the Seventh Circuit’s recent *Reifert* decision. Part III examines in detail the arguments favoring and condemning the implementation of the economic interest requirement in a *per se* tying analysis and concludes that the requirement should not be used as a prerequisite for *per se* illegality of a tying arrangement under existing Supreme Court doctrine. Finally, Part IV analyzes the efficacy of the *per se* standard

\(^4\) Parts & Elec. Motors, Inc. v. Sterling Elec., Inc., 826 F.2d 712 (7th Cir. 1987).

\(^5\) 450 F.3d 312 (7th Cir. 2006)

\(^6\) *Id.* at 323 (Wood, J. concurring).

\(^7\) *See Arizona v. Maricopa County Med. Soc’y,* 457 U.S. 332 (1982) for an example of a classic *per se* analysis of a price fixing agreement.
as it applies to tying arrangements, and predicts that its time as the prevailing test for tying arrangements is limited.

I. TYING ARRANGEMENTS UNDER THE ANTITRUST LAWS

Precluding contractual arrangements that have anticompetitive effects in the marketplace is an important objective of antitrust law.8 One such contractual arrangement, long recognized by the Supreme Court to have anticompetitive effects on the marketplace, is the tying arrangement.9 A tying arrangement is an agreement to sell a product (the tying product) only on the condition that the buyer also purchase a different product (the tied product), or at least agree not to purchase that product from any other supplier.10 Early Supreme Court jurisprudence held that tying arrangements had few, if any, redeeming qualities.11 Due to this harsh perspective on tying arrangements, the Court began to treat them as illegal per se.12 The requirements for per

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8 See Sherman Act § 1, 15 U.S.C. § 1 (2000); Clayton Act § 3, 15 U.S.C. § 14 (2000). Section 1 of the Sherman Act outlaws “[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations.” Sherman Act § 1. Section 3 of the Clayton Act prohibits the sale or contract for sale of goods on the condition that the purchaser refuses to deal with a competitor where the effect of the condition is to lessen competition or create a monopoly in any line of commerce. Clayton Act § 3.


11 N. Pac. Ry. Co., 356 U.S. at 6 (“[tying arrangements] deny competitors free access to the market for the tied product, not because the party imposing the tying requirements has a better product or a lower price but because of his power or leverage in another market. At the same time buyers are forced to forego their free choice between competing products.”); see also Standard Oil Co. v. United States, 337 U.S. 293, 305 (1949) (explaining that tying arrangements are almost always anticompetitive).

12 Int’l Salt 332 U.S. at 396.
The illegality of tying arrangements have progressively changed since the Court started analyzing them, and the current test involves more of an economic inquiry than the classic antitrust per se analysis. The current per se analysis of tying arrangements has been criticized often in recent history, but the Supreme Court has repeatedly refused to overrule it.

A. The Per Se Tying Analysis is Born

Certain arrangements produce anticompetitive restraints so harmful to competition that the character of the restraint is a sufficient basis for presuming the arrangement is unreasonable under our antitrust laws. These arrangements are condemned as unreasonable per se without an intensive analysis of the arrangement’s actual market effects.

The per se treatment of tying under antitrust law can be traced back to the turn of the twentieth century in cases involving patent misuse. In *Motion Picture Patents Company v. Universal Film Manufacturing Co.* the Supreme Court addressed a licensing agreement allowing use of a patented movie projection machine only for projecting certain films, which were neither part of the patented

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14 See supra note 7.
17 *Jefferson Parish*, 466 U.S. at 10.
18 Id.
19 See, e.g., *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917). The plaintiff in this case patented a part on a movie projection machine which feeds film through the machine. *Id.* The machines with the patented parts were sold on the condition that the machines “be used solely for exhibiting or projecting motion pictures” also owned by the plaintiff. *Id.*
The Court found this arrangement was illegal because the patentee was extending its legal monopoly on movie projectors to the movie film market. This holding overturned *Henry v. A.B. Dick Co.*, a decision made by the Court just five years prior, that a patentee may impose such conditions on a patent. The Court justified this change by citing the then-recently enacted Clayton Act § 3, which it saw as a possible congressional response to its decision in *A.B. Dick*.24

The House Report corresponding to section 3 of the Clayton Act clearly explains the prevailing attitude toward tying arrangements at the time it was drafted. According to the Clayton Act House Report, tying arrangements are “one of the greatest agencies and instrumentalities of monopoly ever devised by the brain of man.” The report continues in equally strong and dramatic language: “[the tying arrangement] completely shuts out competitors, not only from trade in which they are already engaged, but from the opportunities to build up trade in any community where these great and powerful combinations are operating under this system and practice.” This outright condemnation of tying arrangements by Congress

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20 Id. at 508.
21 Id. at 517. (explaining that “the owner intends to and does derive its profit, not from the invention on which the law gives it a monopoly, but from the unpatented supplies with which it is used, and which are wholly without the scope of the patent monopoly, thus in effect extending the power to the owner of the patent to fix the price to the public of the unpatented supplies as effectively as he may fix the price on the patented machine”).
22 224 U.S. 1 (1912). The agreement at issue in *A.B. Dick* conditioned the sale of a patented duplication machine on the promise to purchase all paper and ink from the duplication machine manufacturer only. Id.
23 *Motion Picture Patents Co.*, 243 U.S. at 518.
24 Id. at 517 (explaining that the Court is “confirmed” in its conclusion to overrule *A.B. Dick* by the Clayton Act § 3, which Congress drafted “as if in response” to the Court’s holding in *A.B. Dick*).
26 *Jefferson Parish*, 466 U.S. at 11 n.15.
27 Id.
demonstrates the viewpoint that “[t]ying agreements serve hardly any purpose beyond the suppression of competition.” Such a negative outlook on all arrangements to sell two products together, however, is rejected today.

The Supreme Court first explicitly applied the per se rule to tying arrangements in International Salt Co. v. United States. In this case, International Salt (then, the largest producer of salt for commercial purposes) owned patents on two machines for the “utilization of salt products.” International Salt leased the machines to over 800 separate lessees on the condition that the lessees purchase all salt for use in the machines from International Salt. The Court found that the tying arrangement was unreasonable per se because it foreclosed competitors from a market. In its analysis, however, the Court appeared to treat two aspects as threshold determinations, necessary before finding the tying arrangement unreasonable per se. The Court first determined that International Salt had market power in the tying market. Then, the Court justified its decision to condemn the arrangement per se by explaining that the volume of business it

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28 Standard Oil Co. v. United States, 337 U.S. 293, 305 (1949)
29 Jefferson Parish, 466 U.S. at 11 (explaining that “not every refusal to sell two products separately can be said to restrain competition”).
30 332 U.S. 392 (1947)
31 Id. at 394 (The first machine, the Lixator, turned rock salt into a brine useful in industrial products; the second, the Saltomat, injected salt into canned products).
32 Id. at 395 n.5.
33 Id. at 396, 398 (explaining that competitors are able to produce salt of the same quality as International Salt, and are shut out of the market by a provision that “limits [the market], not in terms of quality, but in terms of a particular vendor”).
34 Id. at 395-96.
35 Id. (finding market power in the tying market from International Salt’s patented machines, the Court stated, “[f]rom [the patents] appellant derives a right to restrain others from making, vending or using the patented machines”).

The market power requirement is explained further in N. Pac. Ry. Co. v. United States: “where the seller has no control or dominance over the tying product so that it does not represent an effectual weapon to pressure buyers into taking the tied item any restraint of trade attributable to such tying arrangements would obviously be insignificant at most.” 356 U.S. 1, 6 (1958).
affected was not insubstantial. These two conditions spurred the Supreme Court’s progressive refining of the *per se* tying definition, discussed ahead.

Six years later, the Court addressed a tying arrangement again in *Times-Picayune Publishing Co. v. United States*. This case dealt with the New Orleans newspaper industry, wherein there was one morning and two evening newspapers. The Times-Picayune Publishing Company owned the sole morning newspaper, and one of the two evening newspapers. According to Times-Picayune’s contract for sale of advertising space, potential advertisers had to purchase an advertisement in both the morning and the evening newspapers (the tying and tied product, respectively).

The *Times-Picayune* Court allowed the arrangement requiring purchasers of classified advertising space to purchase space in both the morning and evening papers. The Court assessed the market for classified advertising in New Orleans newspapers, and found that the Times-Picayune morning newspaper held a forty percent share of the relevant market for classified advertising. The Court held that this share did not comprise the type of market power required under *International Salt*. Most notably from a historical standpoint, however, the Court also explained that the agreement could not be condemned because it did not involve two separate products.

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36 *Int’l Salt*, 332 U.S. 396.
37 345 U.S. 594 (1953).
38 *Id.* at 598-602.
39 *Id.* at 598.
40 *Id.* at 599-600.
41 *Id.* at 596-97.
42 *Id.* at 612 (surveying the sales of all advertising in New Orleans newspapers and deciding that the Times-Picayune was not dominant in the newspaper advertising market in the city).
43 *Id.*
44 *Id.* at 612-13.
45 *Id.* at 614 (explaining that “[t]he common core of the adjudicated unlawful tying arrangements is the forced purchase of a second distinct commodity with the
Times-Picayune Court’s analysis added this separate-product requirement to the two threshold requirements for per se treatment of tying arrangements promulgated in International Salt.

While the Times-Picayune Court recognized the International Salt threshold requirements for per se treatment of tying arrangements, its opinion deviated somewhat from the International Salt analysis. The Supreme Court clearly restated its conception of the per se rule against tying arrangements in Northern Pacific Railway Co. v. United States (“NPRC”). In 1864 and 1870 the United States government granted the defendant approximately forty million acres of land across the continent on which to build a railroad. The land was granted in belts that ranged from twenty to forty miles wide. The railroad sold some of the land and maintained and leased out the rest of the land. The sales contracts and lease agreements included a clause requiring the owners or lessees to use the defendant’s railroad lines for shipping all commodities made on the land. The United States brought suit claiming these contracts constituted illegal tying arrangements.

The NPRC Court addressed this tying arrangement, whereby the defendant railroad company sold parcels of land it owned (the tying good) on the condition that the owners of that land use the railroad company for all their shipping needs (the tied service). The Supreme

desired purchase of a dominant ‘tying’ product, resulting in economic harm to competition in the ‘tied’ market”.

The Court deviated from the International Salt holding in that it (1) required actual proof of market power in the tying product market, and (2) used slightly different analyses for tying under section 1 of the Sherman Act and section 3 of the Clayton Act. Id. at 608-09, 610-13.

Id. at 2.
Id. at 3.
Id.
Id.
Id. at 3-4.
Id. Also note that the Court addressed this arrangement under section 1 of the Sherman Act, and not the Clayton Act because the Clayton Act applies only to commodities and land is not a commodity. Id. at 14 n.1.
Court emphasized that tying arrangements are “unreasonable in and of themselves whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a ‘not insubstantial’ amount of interstate commerce is affected.”54 In holding the arrangement unreasonable per se, the Court inferred market power in the tying product (land for sale) because the railroad company was given large tracts of land by the government.55 Additionally, the Court inferred a “not insubstantial” effect on commerce by the nature of the agreement.56

Despite the emphatic argument in the dissent, the NPRC majority implied that tying is treated the same under section 1 of the Sherman Act, and section 3 of the Clayton Act, and that proof of market power in the tying market is unnecessary.57 Additionally, the NPRC Court referred to the defendant’s use of market power to induce large numbers of customers to give it preference over its competitors as “leverage.”58 The leverage concept continues to be important in tying arrangement analysis today.59 NPRC showcases the strict per se

54 Id. at 6 (citing Int’l Salt Co. v. United States, 332 U.S. 392 (1947)).
56 Id. at 12 (stating that no matter what possible redeeming qualities the tying agreements may have, the “essential fact remains that these agreements are binding obligations held over the heads of vendees which deny defendant's competitors access to the fenced-off market on the same terms as the defendant”).
57 See id. at 13-14 (Harlan, J. dissenting) (arguing that tying agreements assessed under Sherman Act § 1 “raise legal issues different from those presented by the legislatively defined tying clauses invalidated under the more pointed prohibitions of the Clayton Act,” and that “both proof of dominance in the market for the tying product and a showing that an appreciable volume of business in the tied product is restrained are essential conditions to judicial condemnation of a tying clause as a per se violation of the Sherman Act”) (emphasis in original).
58 Id., 356 U.S. at 7.
59 See 9 AREEDA & HOVENKAMP, supra note 15, ¶ 1700d (stating that “[t]he original, continuing, and most fundamental concern about tying is ‘leverage’”); 5 PHILLIP AREEDA & DONALD F. TURNER, ANTITRUST LAW ¶ 1134a (1981) (defining leverage as “a supplier’s power to induce his customer for one product to buy a
treatment of tying arrangements in the Court’s early cases. The Court’s approach to tying arrangements began to change through the 1960’s and 1970’s.

B. Changing Per Se Illegality

The Supreme Court’s change from its rigid analysis of tying arrangements to a more cautious approach, requiring more proof of market power and anticompetitive effects, is exemplified through its decisions in *Fortner Enterprises Inc. v. United States Steel Corp.* ("Fortner I") and *United States Steel Corp v. Fortner Enterprises Inc.* ("Fortner II"). The plaintiff in *Fortner I* filed a tying arrangement suit against defendants, U.S. Steel and U.S. Steel Homes Credit Corp., its wholly-owned subsidiary credit corporation (the “Credit Corporation”). The alleged tying arrangement in *Fortner I* required corporations and individuals to purchase prefabricated steel homes from U.S. Steel (the tied product) as a condition to obtaining financing from the Credit Corporation (the tying service). The plaintiff explained that he agreed to purchase the prefabricated steel homes so he could obtain financing for 100 percent of his land from the Credit Corporation; no other company would provide him that service. *Fortner I* was granted certiorari after the Sixth Circuit affirmed the district court’s decision in favor of the defendants in a second product from him that would not otherwise be purchased solely on the merit of that second product.

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60 For another example of a strict per se analysis, see *Fortner Enterprises Inc. v. U.S. Steel Corp.* ("Fortner I"), 394 U.S. 495 (1969).

61 This change has been credited to the Chicago-School’s influence on antitrust law during that period. See Keith N. Hylton & Michael Salinger, *Tying Law and Policy: A Decision-Theoretic Approach*, 69 ANTITRUST L.J. 469 (2001).


64 *Fortner I*, 394 U.S. at 496-97.

65 And in *Fortner II*.

66 *Fortner I*, 394 U.S. at 497.

67 Id. at 504.
summary judgment proceeding on the grounds that the plaintiff failed to establish sufficient market power in the tying service.\textsuperscript{68}

The Supreme Court first rejected the district court’s finding that the plaintiff could not proceed on the merits of the case where it failed to prove market power in the tying service.\textsuperscript{69} The Court then turned to whether the plaintiff pled facts which, if proved at trial, could render the defendants’ tying arrangement illegal \textit{per se}.\textsuperscript{70} In finding that the plaintiff pled sufficient facts showing economic power in the tying service, the Court emphasized that the Credit Corporation’s terms were “uniquely and unusually advantageous.”\textsuperscript{71} From this, the Court inferred that the Credit Corporation had “unique economic advantages” over its competitors.\textsuperscript{72} In other words, the Court held that sufficient market power in the tying market could be shown because the rate offered by the credit company was unique.\textsuperscript{73} Therefore, the Supreme Court found that the plaintiff sufficiently stated a cause of action and allowed the case to proceed.\textsuperscript{74} The \textit{Fortner I} decision came


\textsuperscript{69} \textit{Fortner I}, 394 U.S. at 500 (explaining that a finding that the plaintiff failed to meet the standards of \textit{Int’l Salt} and \textit{NPRC} cannot be fatal for the plaintiff’s antitrust case, and that “[a] plaintiff can still prevail on the merits whenever he can prove, on the basis of a more thorough examination of the purposes and effects of the practices involved, that the general standards of the Sherman Act have been violated”). Here, the Court meant that even if the agreement is not \textit{per se} illegal as a tying arrangement, it may be illegal under the rule of reason, which is explained \textit{infra} note 104.

\textsuperscript{70} \textit{Fortner I}, 394 U.S. at 500-01.

\textsuperscript{71} \textit{Id.} at 504-505 (the Court was referring specifically to the Credit Corporation’s ability to provide financing for 100 percent of the purchase price of a plot of land).

\textsuperscript{72} \textit{Id.}

\textsuperscript{73} However, the Court added in a footnote that “[u]niqueness confers economic power only when other competitors are in some way prevented from offering the distinctive product themselves.” \textit{Id.} at 506 n.2. This footnote became important in \textit{Fortner II}.

\textsuperscript{74} \textit{Fortner I}, 394 U.S. at 510.
with four dissenting Justices, foreshadowing the different outcome in *Fortner II*.\footnote{United States Steel Corp. v. Fortner Enters. Inc., ("Fortner II"), 429 U.S. 610 (1977).}

Eight years after the Court decided *Fortner I*, the same case came knocking at its door; this time, the issue was whether the credit company actually had sufficient economic power in the tying market.\footnote{Id.} Unlike in *Fortner I*, the Court in *Fortner II* was not hasty to infer market power in the tying market from the uniqueness of the tying producer’s product.\footnote{Id. at 622; see also James P. Melican, Jr., Antitrust Developments: Tying Arrangements and Related Restrictions after *Fortner II*, 51 ANTITRUST L.J. 157, n.13 (1982) (stating that “[a]lthough Justice Stevens went to great pains to stress that there was nothing inconsistent between the Supreme Court’s opinions in *Fortner I* and *II*, many commentators and more than a few judges seem to have concluded that the signals did in fact change).} While the Court asserted that its decision in *Fortner II* was consistent with *Fortner I*, it held that the plaintiff failed to establish market power in the tying service.\footnote{*Fortner II*, 429 U.S. at 615 (the plaintiff asserted that market power was present from four factors: “(1) petitioner Credit Corp. and the Home Division were owned by one of the Nation's largest corporations; (2) petitioners entered into tying arrangements with a significant number of customers in addition to Fortner; (3) the Home Division charged respondent a noncompetitive price for its prefabricated homes; and (4) the financing provided to Fortner was 'unique,' primarily because it covered one hundred percent of Fortner's acquisition and development costs”).} In *Fortner II*, the Court refused to infer that the Credit Corporation held sufficient market power in the credit industry because of U.S. Steel’s size, and likewise refused to infer market power from the fact that a large number of purchasers accepted the tied package.\footnote{Id. at 617-19 n.10.} The Court also rejected the inference of market power from the noncompetitive price charged for the tied product (building materials for houses).\footnote{Id. at 618.}
Perhaps most surprising, considering the direction in which the Court seemed to be going with respect to inferring market power in *Fortner I*, was its refusal to infer market power from the uniqueness of the Credit Corporation’s service. The Court decided that in the absence of proof that the Credit Corporation had a cost advantage in the tying market, the credit company could not have “the kind of uniqueness considered relevant” in tying arrangement analysis. In its *Fortner II* opinion, the Court emphasized footnote 2 of *Fortner I*, which required the tying product to have a competitive advantage in the tying market in order to infer market power from uniqueness. The Court in *Fortner II* used this competitive advantage requirement to justify its holding that the credit company’s service did not have the type of uniqueness that requires an inference of market power. These requirements highlighted in *Fortner II* seemed similar to the analysis in *Times-Picayune* that started to stray from the *International Salt* strict *per se* analysis; however, the Court still referred to its analysis as a *per se* inquiry.

C. The Per Se Analysis under the Supreme Court Today

While the changing views of the *per se* rule for tying arrangements explained above may make the rule seem somewhat unstable, one maxim has emerged from the previously examined cases

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81 Melican, *supra* note 77, at n.16 (remarking, “[t]he Supreme Court’s conclusion in *Fortner II* that Fortner had simply failed to sustain the burden of proof of sufficient economic power the Court had outlined in *Fortner I* must have come as a surprise to more than a few of the lawyers and judges involved in the long history of that case”).

82 *Fortner II*, 429 U.S. at 620-21.

83 *Id.*

84 *See* note 73 *supra*.

85 *Fortner II*, 429 U.S. at 621-22 (holding that “if the evidence merely shows that credit terms are unique because the seller is willing to accept a lesser profit -- or to incur greater risks -- than its competitors, that kind of uniqueness will not give rise to any inference of economic power in the credit market”).

86 *Id.* at 612.
and has remained at the forefront of the tying analysis: “the essential characteristic of an invalid tying arrangement lies in the seller’s exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms.”

This concept reflects the decisions and emphasized policies contained in many of the previously addressed cases.

The Supreme Court majority in Jefferson Parish clung strongly to the *per se* rule for contractual tying arrangements in a hotly-contested opinion that has since endured. The five-to-four decision in Jefferson Parish saw all nine Justices agree in upholding the arrangement at issue, but disagree on the appropriate road to that conclusion.

Despite the arguments against the application of the *per se* rule contained in Justice O’Connor’s concurrence, Justice Stevens’ majority opinion proclaimed, “[i]t is far too late in the history of our antitrust jurisprudence to question the proposition that certain tying arrangements pose an unacceptable risk of stifling competition and therefore are unreasonable ‘per se.’”

The tying arrangement in Jefferson Parish consisted of a contract between a hospital (the “Hospital”) and a firm of anesthesiologists (the “Firm”) establishing the Firm as the sole provider of anesthesia in the Hospital. The plaintiff asserted that this agreement constituted a *per se* violation of section 1 of the Sherman Act as a tying arrangement because patients at the Hospital must use an anesthesiologist from the Firm.

Justice Stevens began his majority opinion by explaining the importance of “forcing” (derived from the concept of leverage) in the

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88 See Jefferson Parish, 466 U.S. 2.
89 See id.
90 Id. at 10.
91 Id. at 4. The tying service in this agreement was hospital care; the tied service was “anesthesiological services.” Id. at 2.
92 Id.
per se tying arrangement analysis. The majority recognized that a prerequisite for condemning tying arrangements under the per se rule is the existence of “some special ability [held by the seller]—usually called ‘market power’—to force a purchaser to do something that he would not do in a competitive market.” A second threshold requirement recognized by the Jefferson Parish majority as necessary for per se condemnation of a tying arrangement is the foreclosure of “a substantial volume of commerce” by the arrangement. The majority concluded its explanation of the per se rule’s threshold requirements by asserting that a tying arrangement requires the sale of two separate products or services. This statement of the requirements for per se

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93 Id. at 12 (explaining that “forcing” exists where the seller can exploit “its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms,” and that when “forcing’ is present, competition on the merits in the market for the tied item is restrained and the Sherman Act is violated”).

94 Id. at 12-19.

95 Id. at 13-17 (explaining in dicta that market power in the tying product, which makes forcing likely, exists where (1) the seller has a patent or similar monopoly, (2) the seller’s share of the market is high, or (3) the seller is able to offer a unique product that competitors are unable to offer).

96 Id. at 16 (stating, “when a purchaser is ‘forced’ to buy a product he would not have otherwise bought even from another seller in the tied-product market, there can be no adverse impact on competition because no portion of the market which would otherwise have been available to other sellers has been foreclosed”); but see id. at 12 (explaining that an invalid tying arrangement exists where the buyer was forced “into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms”) (emphasis added).

97 Id. at 18 (holding, “we must consider whether petitioners are selling two separate products that may be tied together, and, if so, whether [the defendants] have used their market power to force their patients to accept the tying arrangement”).
illegality of tying arrangements continues to constitute the test favored by the Supreme Court when addressing tying arrangements.\footnote{See, e.g., Ill. Tool Works Inc. v. Indep. Ink Inc., 126 S.Ct. 1281, 1286, 1291 (2006); Eastman Kodak Co. v. Image Tech. Servs., 504 U.S. 451 (1992).}

After analyzing the services offered by the Hospital and the Firm, the majority concluded that “anesthesiological services and the other hospital services” are separate products, and are treated so by patients.\footnote{\textit{Jefferson Parish}, 466 U.S. at 19-20.} The Court then moved on to the market power requirement and found the Hospital lacked sufficient market power to force the tie on consumers.\footnote{\textit{Id}. at 26} The majority upheld the tying arrangement because the plaintiff’s only evidence of market power was a “preference” for services from the Hospital.\footnote{\textit{Id}.} The Court stated that such a preference is not probative of significant market power especially where seventy percent of the Jefferson Parish (where the Hospital is located) residents enter other hospitals.\footnote{\textit{Id}. at 26-27 (stating that “[t]he fact that a substantial majority of the parish’s residents elect not to enter East Jefferson means that the geographic data do not establish the kind of dominant market position that obviates the need for further inquiry into actual competitive conditions”).}

Justice O’Connor authored the concurrence in \textit{Jefferson Parish} (joined by Chief Justice Burger and Justices Powell and Rehnquist) calling for the abandonment of the \textit{per se} standard for tying arrangements.\footnote{\textit{Id}. at 35 (arguing that “[t]he time has . . . come to abandon the ‘per se’ label and refocus the inquiry on the adverse economic effects, and the potential economic benefits, that the tie may have”).} The concurrence asserted that the only proper way to assess the validity of tying arrangements is through a rule of reason analysis.\footnote{A rule of reason analysis (the alternative to a \textit{per se} analysis in antitrust) focuses on whether a contract actually unreasonably restrains competition. This uses an inquiry into the actual economic benefits and detriments the particular agreement causes in the market, and analyzes each individual agreement separately. \textit{Id}. at 30, 41 (O’Connor, J. concurring).} The approach to analyzing tying arrangements proposed by Justice O’Connor includes three requirements that the agreement...
must meet in order to warrant further inquiry of the arrangement; Justice O’Connor insists however, that a tying arrangement meeting all three requirements should still be upheld if it creates sufficient economic benefits.

The arguments contained in the Jefferson Parish concurrence have been well-received by some scholars, and even judges. However, the per se analysis explained by the majority remains the analysis used today in assessing contractual tying arrangements.

A recent Supreme Court decision upheld the Jefferson Parish majority’s per se analysis of tying arrangements while also citing favorably Justice O’Connor’s arguments in the concurrence. Illinois Tool Works presented a tying arrangement whereby the defendant sold its patented printheads (the tying product) to printer manufacturers on the condition that the printer manufacturers agree to purchase ink (the tied product) for the printheads exclusively from the defendant. The Court focused its analysis of the agreement on whether the record supported the appellate court’s finding that the defendant’s patent on

105 Id. at 41 (O’Connor’s requirements for a rule of reason inquiry are: (1) market power in the tying product, (2) a substantial threat of market power in the tied product, and (3) a coherent economic basis for treating the products as distinct).
106 Id.
107 Id.
108 Ill. Tool Works Inc. v. Indep. Ink Inc., 126 S.Ct. 1281, 1288 (2006) (agreeing with Justice O’Connor’s argument that “the presumption that a patent always gives the patentee significant market power” is improper in assessing market power in the tying product); Carl Sandburg Vill. Condo. Ass’n No. 1 v. First Condo. Dev. Co., 758 F.2d 203, 210 (7th Cir. 1985); A.I. Root Co. v. Computer/Dynamics, Inc., 806 F.2d 673, 676 (6th Cir. 1986); Hylton supra note 61, at 479 (contending that Justice O’Connor’s rule of reason analysis “would have brought contractual tying doctrine in line with the technological integration case law developed in lower courts”); 10 PHILLIP E. AREEDA, HERBERT HOVENKAMP & EINER ELHAUGE ANTITRUST LAW ¶ 1737c (2d ed. 2004).
109 Ill. Tool Works, 126 S.Ct. at 1291 (favoring the Jefferson Parish majority’s standards for addressing tying arrangements).
110 See Ill. Tool Works, 126 S.Ct. 1281.
110 Id. at 1284.
the tying product inferred market power in the tying product’s market.\textsuperscript{111}

In reversing the Federal Circuit’s decision, the Court held that a patent on a tying product does not infer market power in the tying product’s market.\textsuperscript{112} This holding ran counter to the dictum in \textit{Jefferson Parish} regarding a patent’s effect on market power.\textsuperscript{113} The Court explained its decision that a patent no longer infers market power: “after our decision in \textit{Jefferson Parish} repeated the patent-equals-market-power presumption [citation omitted], Congress amended the Patent Code to eliminate that presumption in the patent misuse context.”\textsuperscript{114} Because the basis for inferring market power from patents was revoked,\textsuperscript{115} the Court determined “it would be anomalous to preserve the presumption” of market power from the existence of a patent.\textsuperscript{116} This result is consistent with Justice O’Connor’s argument in her \textit{Jefferson Parish} concurrence that the existence of a patent alone is insufficient to demonstrate that a seller possesses sufficient market power.\textsuperscript{117}

While the \textit{Illinois Tool Works} Court dismissed the inference of market power from a patent explained in the \textit{Jefferson Parish} decision, it also explicitly recognized that the general \textit{per se} test explicated in \textit{Jefferson Parish} is the proper analysis for tying arrangements.\textsuperscript{118} The Court now seems to require the same proof of market power necessary to engage in forcing\textsuperscript{119} in cases involving intellectual property holders as it does in cases not involving intellectual property holders (such as

\textsuperscript{111} Independent Ink, Inc. v. Ill. Tool Works, Inc. 396 F.3d 1342, 1344 (Fed. Cir. 2005).
\textsuperscript{112} \textit{Ill. Tool Works}, 126 S.Ct. at 1291.
\textsuperscript{113} See supra note 95.
\textsuperscript{114} \textit{Ill. Tool Works}, 126 S.Ct. at 1290.
\textsuperscript{115} See supra discussion on the history of tying arrangements in Section I(A).
\textsuperscript{116} \textit{Ill. Tool Works}, 126 S.Ct. at 1290.
\textsuperscript{118} \textit{Ill. Tool Works}, 126 S.Ct. at 1291 (holding that “tying arrangements involving patented products should be evaluated under the standards applied in cases like \textit{Fortner II} and \textit{Jefferson Parish}”).
\textsuperscript{119} See supra note 93.
Jefferson Parish). In the short period of time since the Court’s analysis in Illinois Tool Works, its holding has already caused some confusion in the lower courts with respect to the application of the Jefferson Parish per se tying analysis.

D. The Seventh Circuit and the “Economic Interest” Requirement

Some circuits have required the plaintiff to show an additional element before the court will find a tying arrangement is unlawful per se. This element, the “economic interest” requirement, first surfaced in the Fourth Circuit in 1958. Although the requirement’s direct applicability to the per se tying test was uncertain, other circuits began to employ the economic interest requirement in their per se tying arrangement analyses.

The Seventh Circuit announced its approval of the economic interest requirement in Ohio-Sealy Mattress Manufacturing Co. v. Sealy. This 1978 holding cited a Sixth Circuit case in stating “there is no illegal tying arrangement where a ‘tying’ company has absolutely no financial interest in the sales” of the tied company.

120 Ill. Tool Works, 126 S.Ct. at 1291 (stating, “[w]hile some [tying arrangements involving patented products] are still unlawful, such as those that are the product of a true monopoly or a marketwide conspiracy [citations omitted], that conclusion must be supported by proof of power in the relevant market rather than by a mere presumption” of market power from the existence of a patent).

121 See Reifert v. S. Cent. Wis. MLS Corp., 450 F.3d 312 (7th Cir. 2006).


123 See Eric D. Young, The Economic Interest Requirement in the Per Se Analysis of Tying Arrangements: A Worthless Inquiry, 58 FORDHAM L. REV. 1353, 1364-65 (1990) (explaining that “Miller addressed two separate claims” and that “the first part of the opinion [in Miller], which identified an economic interest requirement, did not even address tying arrangements”).

124 See Roberts v. Elaine Powers Figure Salons, Inc., 708 F.2d 1476, 1478-81 (9th Cir. 1983); Keener v. Sizzler Family Steak Houses, 597 F.2d 453, 456 (5th Cir. 1979); Ohio-Sealy Mattress Mfg. Co. v. Sealy, Inc., 585 F.2d 821, 835 (7th Cir. 1978); Crawford Transp. Co. v. Chrysler Corp., 338 F.2d 934, 939 (6th Cir. 1964).

125 Ohio-Sealy Mattress, 585 F.2d 821 at 835.

126 Id.
The Seventh Circuit’s decision in *Carl Sandburg Village Condominium Association No. 1 v. First Condominium Development Co.*,¹²⁷ written by Judge Flaum exactly one year after *Jefferson Parish*,¹²⁸ reaffirmed the Seventh Circuit’s reliance on the economic interest requirement in its tying arrangement analysis. Unlike the Reifert case, the holding of *Carl Sandburg Village* hinged on the application of the economic interest requirement.¹²⁹ The alleged tying arrangement in *Carl Sandburg Village* involved the sale of condominium units (the tying product) conditioned on the signing of maintenance and management contracts (the tied service) with a particular service provider.¹³⁰ The condominium developer and the provider of management and maintenance services were unaffiliated entities.¹³¹ The *Carl Sandburg Village* court upheld the arrangement at issue because the plaintiff failed to “establish the necessary economic interest element of the tying seller in the tied product market.”¹³²

The court justified its implementation of the economic interest requirement by noting that it is used “by courts in the Second, Third, Fourth, Fifth, Sixth, Ninth, and Eleventh Circuits,”¹³³ and by reciting policy concerns raised in Justice O’Connor’s *Jefferson Parish*.

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¹²⁷ 758 F.2d 203 (7th Cir. 1985).
¹²⁹ *Carl Sandburg Vill.*, 758 F.2d at 209.
¹³⁰ *Id.* at 205
¹³¹ *Id.*
¹³² *Id.* at 209.
¹³³ *Id.* at 208. Since the *Carl Sandburg Village* decision, the Second Circuit has expressly rejected the economic interest requirement in *Gonzalez v. St. Margaret’s House Hous. Dev. Fund Corp.* 880 F.2d 1514 (2d Cir. 1989); the Third Circuit has omitted the requirement from its stated *per se* tying inquiry in *Brokerage Concepts, Inc. v. U.S. Healthcare, Inc.* 140 F.3d 494 (3d Cir. 1998); the Eleventh Circuit has continued use of the requirement, but expressed doubt in its applicability to tying arrangements in *Thompson v. Metro. Multi-List, Inc.* 934 F.2d 1566, 1579 n.12 (11th Cir. 1991); and, the Tenth Circuit has adopted the requirement in *Abraham v. Intermountain Health Care, Inc.* 461 F.3d 1249 (10th Cir. 2006).
The Seventh Circuit cited the Jefferson Parish concurrence in stating that the goal of antitrust laws “in the tying context is to prevent the economically harmful effects of tie-ins in cases where a seller’s power in the market for the tying product is used to create additional power in the market for the tied product.” This policy consideration led the Carl Sandburg Village court to announce that “[o]ne of the threshold criteria that a plaintiff must satisfy under . . . the per se . . . analysis[is] . . . is that there is a substantial danger that the tying seller will acquire market power in the tied product market.”

Two and a half years later, the Seventh Circuit rethought its position on the economic interest requirement in Parts and Electric Motors, Inc. v. Sterling Electric, Inc (“P&E”). The issue in P&E was an arrangement whereby the defendant sold replacement parts for electric motors (the tying product) to distributors on the condition that the distributors also agree to purchase and “aggressively promote minimum quantities” of electric motors (the tied product).

The defendant in P&E failed to preserve the issue of whether the economic interest requirement is necessary in a per se tying analysis on appeal to the Seventh Circuit; nevertheless, the court addressed

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134 Carl Sandburg Vill., 758 F.2d at 210 (stating that, in order to establish per se illegality of a tying arrangement, a plaintiff must show that “there is a substantial danger that the tying seller will acquire market power in the tied product market) (citing Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 36-39 (1984) (O’Connor, J. concurring)).

135 Carl Sandburg Vill., 758 F.2d at 210 (citing Jefferson Parish, 466 U.S. 2, 36-37 (O’Connor, J. concurring); but see Jefferson Parish, 466 U.S. at 13 n.19 (explaining that “[t]he tying seller may be working toward a monopoly position in the tied product, and even if he is not, the practice of tying forecloses other sellers of the tied product and makes it more difficult for new firms to enter that market”) (quoting Fortner Enter. v. United States Steel Corp. 394 U.S. 495, 512-14 (1969) (White, J. dissenting)).

136 Carl Sandburg Vill., 758 F.2d at 210.

137 826 F.2d 712 (7th Cir. 1987).

138 Id. at 713-14.

139 Id. at 714. The defendant did not object to the jury instruction that “market power [in the tied product] is not relevant” during trial, nor did it proffer an
the issue in dicta.\textsuperscript{140} The \textit{P&E} court explained that \textit{Carl Sandburg Village} is controlled by \textit{Jefferson Parish}.\textsuperscript{141} After analyzing the policy considerations and the holding in \textit{Jefferson Parish}, the Seventh Circuit in \textit{P&E} expressed a view that the \textit{Jefferson Parish} majority does not “articulate as a prerequisite to a tying violation that there be a substantial danger that the tying seller will acquire market power in the tied product market.”\textsuperscript{142}

The \textit{P&E} court recognized that Justice O’Connor’s \textit{Jefferson Parish} concurrence created a debate “among both judges and scholars” on this topic.\textsuperscript{143} The Seventh Circuit concludes, however, by noting “notwithstanding this debate, the requirement that there be a threat of market power in the tied product has not been endorsed as a requisite for a tying violation by a Supreme Court majority.”\textsuperscript{144}

\section{II. The Seventh Circuit’s Approach to Tying Arrangements in \textit{Reifert v. South Central Wisconsin MLS Corp.}}

In \textit{Reifert v. South Central Wisconsin MLS Corp.},\textsuperscript{145} the Seventh Circuit put its stamp on a factual issue already confronted by several other circuits.\textsuperscript{146} The plaintiff in \textit{Reifert} was a real estate buyer’s agent who alleged that the defendant (a real estate multiple listing service

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\item[\textsuperscript{140}] Id. at 718.
\item[\textsuperscript{141}] Id.
\item[\textsuperscript{142}] Id.
\item[\textsuperscript{143}] Id. at 718-19 (stating, “[o]n the other hand, Justice O’Connor, in a concurring opinion joined by three other Justices, advocates in \textit{Jefferson Parish} that \textit{per se} principles of liability be abandoned and that to establish a tying violation ‘there must be a substantial threat that the tying seller will acquire market power in the tied-product market’”) (quoting Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 38 (O’Connor, J. concurring)).
\item[\textsuperscript{144}] \textit{Parts & Elec. Motors}, 826 F.2d at 719.
\item[\textsuperscript{145}] 450 F.3d 312 (7th Cir. 2006).
\item[\textsuperscript{146}] See Thompson v. Metro. Multi-List, Inc., 934 F.2d 1566 (11th Cir. 1991); Wells Real Estate, Inc. v. Greater Lowell Bd. of Realtors, 850 F.2d 803 (1st Cir. 1988).
\end{itemize}
\end{footnotesize}
engaged in an illegal tying arrangement by conditioning access to its services (the tying service) on the purchase of a membership in a local Realtors Association (the tied service). This same arrangement was addressed by the First and Eleventh Circuits prior to Reifert. A brief look at these circuits’ holdings on this issue will assist the analysis of the Seventh Circuit’s Reifert opinion.

The MLS tying arrangement issue arose in Wells Real Estate v. Greater Lowell Board of Realtors in 1988. The plaintiff in Wells appealed to the First Circuit the district court’s directed verdict for the defendants on his tying claim. The court in Wells upheld the arrangement because the plaintiff failed to show that it foreclosed a substantial volume of commerce. The First Circuit so held because the plaintiff did not demonstrate a market for real estate board membership affected by the arrangement. Conversely, the Eleventh Circuit found that the plaintiff sufficiently pled that an MLS tying arrangement was illegal per se in Thompson v. Metropolitan Multi-List, Inc. The Thompson court found that the arrangement had a “not insubstantial” effect on interstate commerce because the plaintiff showed that another real estate membership board lost around 400 members due to the agreement.

148 Reifert, 450 F.3d at 315.
149 Wells, 850 F.2d at 803.
150 Id. at 807.
151 Id. at 815.
152 Id. (explaining that there is no evidence that other brokers would have purchased membership in other real estate boards “but for the power exerted by the lure of the defendants’ MLS”).
153 934 F.2d 1566, 1579 (11th Cir. 1991).
154 Id. at 1577-78 (the plaintiff submitted an affidavit from an officer of a competing real estate board stating that because of the cost of joining both boards, 400 members or potential members of the affiant’s board have quit or declined to join).
While the Wells and Thompson cases reached different outcomes in assessing the sufficiency of real estate MLS tying claims, their reasoning is consistent. Both cases can be read together to conclude that a real estate MLS tying claim is insufficient where there is no evidence of a real estate association that competes with the association favored by the tie to MLS access. Therefore, Wells and Thompson both properly require foreclosure of a substantial amount of commerce in the tied product market (i.e. the market for real estate association memberships) in assessing the legality of a real estate MLS tying arrangement.

A. Reifert's Tying Claim

The plaintiff in Reifert (“Mr. Reifert”) was a licensed real estate broker located in south central Wisconsin. His membership in the Realtors Association of South Central Wisconsin (“RASCW”) and his use of South Central Wisconsin MLS’s (“SCWMLS”) services began in 1988. He claimed that he had no desire to maintain his RASCW membership, and that he belonged to RASCW only because it enabled him to access SCWMLS. The plaintiff objected to the fees he was forced to pay as a result of his membership in RASCW, and claimed that he was forced to pay dues in excess of $2,000.00 for this unwanted membership during a four-year period.

Mr. Reifert’s ill-fated tying arrangement claim began in the United States District Court for the Western District of Wisconsin. Judge John C. Shabaz ruled on cross motions for summary judgment.

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155 Robert D. Butters, 10A-8 Real Estate Brokerage Law and Practice § 8.04 (Matthew Bender & Co., Inc. 2006).
156 Reifert v. S. Cent. Wis. MLS Corp., 450 F.3d 312, 315 (7th Cir. 2006).
157 Id.
158 Id.
159 Id.
in favor of the defendant, SCWMLS.\textsuperscript{161} The district judge relied heavily on the First Circuit’s \textit{Wells}\textsuperscript{162} decision in his analysis of the facts in \textit{Reifert}.\textsuperscript{163} Consequently, summary judgment was granted for the defendant because the plaintiff failed to show that “there are competing providers of services in the tied product market whose sales have been foreclosed by the tie between [the] MLS and [RASCW].”\textsuperscript{164} In differentiating this case from \textit{Thompson}, Judge Shabaz noted that the plaintiff did not offer “evidence of a single real estate professional who has joined [another real estate association] instead of [RASCW] or who has declined to join [a different real estate association] because he or she is a member of [RASCW].”\textsuperscript{165} The plaintiff appealed this decision to the Seventh Circuit Court of Appeals.

\textbf{B. The Seventh Circuit Majority’s Analysis of Reifert}

Judge Flaum (along with Judge Kanne) agreed with the district court in his opinion on appeal.\textsuperscript{166} The \textit{Reifert} majority first announced the test it employs for tying arrangements; it explained “\textit{this Court requires the plaintiff to prove four elements.”}\textsuperscript{167} The court then set forth the elements:

In order to establish the \textit{per se} illegality of a tying arrangement, a plaintiff must show that: (1) the tying arrangement is between two distinct products or services, (2) the defendant has sufficient economic power in the tying market to appreciably restrain free competition in the market for the tied product, and (3) a

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\item \textsuperscript{161} \textit{Id.} at *16.
\item \textsuperscript{162} \textit{Wells Real Estate, Inc. v. Greater Lowell Bd. of Realtors}, 850 F.2d 803, 815 (1st Cir. 1988).
\item \textsuperscript{163} \textit{Reifert}, 2005 U.S. Dist. LEXIS 23431 at *9.
\item \textsuperscript{164} \textit{Id.} at *16.
\item \textsuperscript{165} \textit{Id.} at *13.
\item \textsuperscript{166} \textit{Reifert v. S. Cent. Wis. MLS Corp.}, 450 F.3d 312, 321 (7th Cir. 2006).
\item \textsuperscript{167} \textit{Id.} at 316 (emphasis added).
\end{itemize}
not insubstantial amount of interstate commerce is affected [citations omitted]. In addition, this circuit has held that an illegal tying arrangement will not be found where the alleged tying company has absolutely no economic interest in the sales of the tied seller, whose products are favored by the tie-in.168

Judge Flaum recognized that the plaintiff easily satisfies the first two elements of this test.169 The Seventh Circuit, however, agreed with the district court that the plaintiff could not show foreclosure of commerce without evidence of competitors in the market for services offered by RASCW170.

Part of the majority’s opinion in Reifert attempts to justify the per se tying analysis declared therein.171 This is in direct response to the concurrence’s disapproval of including the economic interest factor in the per se tying test.172 In note 2 of his majority opinion, Judge Flaum defends the use of the economic interest factor by stating that (1) the Supreme Court recently approved of Justice O’Connor’s Jefferson Parish concurrence,173 and (2) that the Supreme Court has not yet disagreed with Carl Sandburg Village.174 Nevertheless, the majority

168 Id. (citing Carl Sandburg Vill. Condo. Ass’n No. 1. v. First Condo Dev. Co., 758 F.2d 203, 207-08 (7th Cir. 1985)).
169 Reifert, 450 F.3d at 317 (stating that “access to the multi-listing service cannot be obtained without purchasing the tied product, a Realtors Association membership,” and that “SCWMLS has sufficient market power to restrain free competition”).
170 Id.
171 Id. at 316-17.
172 Id. at 317 n.2.
173 Id. (stating “the Supreme Court recently adopted Justice O’Connor’s reasoning in Jefferson Parish Hosp. Dist. No. 2 and held that tying arrangements involving patents should be evaluated based on their market power ‘rather than under the per se rule’”) (citing Ill. Tool Works Inc. v. Indep. Ink, Inc., 126 S.Ct. 1281, 1291 (2006)).
174 Reifert, 450 F.3d at 317 n.2 (stating “[a]lthough the per se analysis of the Jefferson Parish Hosp. Dist. No. 2 majority has not been expressly over-ruled, in the
does not get a chance to employ the economic interest factor in Reifert since it upholds summary judgment for the defendants due to the plaintiff’s failure to plead that the arrangement forecloses a substantial volume of commerce in the tied service market.\textsuperscript{175}

\textbf{C. Judge Wood’s Reifert Concurrence}

While Judge Wood agreed with the majority’s conclusion in Reifert, she did not subscribe to the majority’s use of the Carl Sandburg Village test.\textsuperscript{176} She saw the Carl Sandburg Village test as ignoring the Supreme Court’s \textit{per se} approach in Jefferson Parish.\textsuperscript{177} Judge Wood held strong to the majority opinion in Jefferson Parish, noting that it explained the \textit{per se} test for tying, and that the Supreme Court has not backtracked from its holding despite a very recent opportunity to do so.\textsuperscript{178} She further explained that according to Jefferson Parish, \textit{per se} treatment is appropriate where forcing\textsuperscript{179} is probable, and forcing is probable if a substantial volume of commerce is foreclosed by the arrangement and it is probable that the seller has market power in the tying product.\textsuperscript{180}

In refusing to acquiesce to the majority’s Carl Sandburg Village test, Judge Wood approved of the test propounded by the D.C. Circuit

\textsuperscript{175}Id. at 320 (explaining that because the plaintiff failed to meet the third requirement, the court need not “address whether SCWMLS has a sufficient economic interest in the sales of the tied product to satisfy the fourth element of an unlawful tying arrangement”).
\textsuperscript{176}Id. at 323 (Wood, J. concurring).
\textsuperscript{177}Id.
\textsuperscript{178}Id. at 322-23 (explaining the recent Ill. Tool Works decision: “Illinois Tool Works . . . stands only for the proposition that a plaintiff must prove that a holder of intellectual property has ‘either the degree or the kind of market power that enables him to force customers’ to purchase the tied product,” and if a plaintiff can, “then the framework established by Jefferson Parish continues to apply”).
\textsuperscript{179}See note 93, supra.
in *United States v. Microsoft Corp.* This test sets forth four elements to a *per se* tying violation: (1) the tying and tied goods are two separate products; (2) the defendant has market power in the tying product market; (3) the defendant affords consumers no choice but to purchase the tied product from it (i.e. a tie actually exists); and (4) the tying arrangement forecloses a substantial volume of commerce. Noticeably absent from the foregoing is any semblance of the economic interest requirement from *Carl Sandburg Village*. Using this test, Judge Wood still agreed with the majority that the plaintiff’s claim failed because he did not offer evidence of any foreclosure of commerce by the tying arrangement. Specifically, Judge Wood explained that according to the record “no one refrained from joining any other organization because of the cost of membership” in RASCW, and therefore the plaintiff’s tying claim fails.

In the concurrence’s final paragraph, Judge Wood succinctly restates her position on the majority’s tying arrangement analysis. She summarizes:

> Analytically, the majority may well be right that the rule of reason approach it sees in [*Carl Sandburg Village*] [citation omitted] would be a more sensible way to approach all tying cases. But it is not for this court to anticipate the Supreme Court’s overruling of its earlier decisions, even if the passage of time and the impact of later cases that create doctrinal tensions are evident to all.

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182 *Reifert*, 450 F.3d at 323 (Wood, J. concurring).

183 *Id.*

184 *Id.*

185 *Id.*

186 *Id.*
Judge Wood asserts that the Seventh Circuit should have limited itself “to pointing out the problems [it] see[s] and then attempting to apply the law as it stands”\(^ {187}\) as the court did in *Khan v. State Oil Co.*\(^ {188}\) According to Judge Wood, the “law as it stands” forbids adding *Carl Sandburg Village*’s economic incentive requirement to the *Jefferson Parish per se* tying framework.\(^ {189}\)

### III. Tying Arrangements and the Economic Incentive Requirement

The disagreement between the majority and the concurrence in the Seventh Circuit’s *Reifert* decision exemplifies the difficulty the circuit courts have endured in applying the *per se* tying analysis. Differing views on *Jefferson Parish*’s policy and its stated *per se* analysis have polarized the proponents and critics of the economic interest requirement.

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\(^{187}\) *Id.*

\(^{188}\) In *Khan v. State Oil Co.*, the Seventh Circuit applied the *per se* rule to vertical maximum price fixing pursuant to the then-authoritative Supreme Court case law despite its “increasingly wobbly, moth-eaten foundations” because “the Supreme Court has told the lower federal courts, in increasingly emphatic, even strident, terms, not to anticipate an overruling of a decision by the Court.” 93 F.3d 1358, 1363, 1366 (7th Cir. 1996), rev’d on other grounds, *State Oil v. Khan*, 522 U.S. 3 (1997).

The Supreme Court granted certiorari and unanimously decided to change the law because of the well-reasoned attacks against the *per se* standard for vertical maximum price fixing. *State Oil*, 522 U.S. at 7. Notably the Supreme Court praised the Seventh Circuit’s treatment of the case, stating “[t]he Court of Appeals was correct in applying [*stare decisis*] despite disagreement with [*previous Supreme Court case law*], for it is this Court’s prerogative alone to overrule one of its precedents.” *Id.* at 20.

\(^{189}\) *Reifert*, 450 F.3d at 323 (Wood, J. concurring).
A. The Construction and Justification of the Economic Interest Requirement

As stated above, certain circuits, including the Seventh Circuit, have used the economic interest requirement in assessing tying arrangements under the *per se* analysis. The policy justification for this requirement is that “when the seller of the tying goods has no interest in the sale of the tied product, he is not using his power in the tying product market to invade a second market.” Therefore, courts using the factor reason that the absence of a tying seller’s economic interest in the tied product indicates that the agreement “ha[s] no anti-competitive impact upon the market for the tied product or service.”

The *Carl Sandburg Village* court attempted to clarify what constitutes an economic interest in the tied market. The Seventh Circuit stated that a tying seller’s economic interest in the sales of the tied product does not have to be direct in the sense that the seller of the tying product also produces the tied product; the tying seller must simply have some form of interest in the sale of the tied product, “such as the receipt of a commission or rebate.” However, Judge Flaum also recognized that “the economic interest requirement is not met where a plaintiff merely alleges that the tying seller is receiving substantial revenue as a result of his sale of two products as a package.” The plaintiff in *Carl Sandburg Village* pled that the tying seller realized economic benefit because the tied seller concealed

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191 *Carl Sandburg Vill.*, 758 F.2d at 208; see also AREEDA & HOVENKAMP, supra note 15, ¶ 1709e5 (stating that a tying seller “who lacks an economic interest in the tied market can hardly gain incremental revenue or exploit his customers in any additional way when it takes nothing from the seller of the second product”).

192 *Beard*, 912 F.2d at 141.

193 *Carl Sandburg Vill.*, 758 F.2d at 208.

194 *Id.*

195 *Id.*
defects in condominiums, thereby allowing the tying seller to sell more condominiums at a higher price.\textsuperscript{196} According to the Seventh Circuit, this benefit did not comply with the definition of an “economic benefit,”\textsuperscript{197} thus the plaintiff’s complaint was deficient and dismissal was proper.\textsuperscript{198}

The Sixth Circuit has perhaps been the most vehement defender of the economic interest requirement. In \textit{Beard v. Parkview Hospital}, the Sixth Circuit upheld a tying arrangement on the grounds that the defendant received no direct economic benefit from the provider of the tied service.\textsuperscript{199} The court used this opportunity to contend that requiring a plaintiff to show an economic interest in order to condemn a tying arrangement as illegal \textit{per se} is consistent with the \textit{Jefferson Parish} holding.\textsuperscript{200}

In \textit{Beard}, the Sixth Circuit states that it is “unpersuaded that the ‘direct economic benefit’ requirement . . . has been displaced” by \textit{Jefferson Parish}.\textsuperscript{201} It necessarily recognized that the \textit{Jefferson Parish} majority “did not state that the seller of a tying product or service must secure a direct economic benefit from sales of a tied product or service” for \textit{per se} illegality of a tying violation.\textsuperscript{202} However, the court contended that since the \textit{Jefferson Parish} decision was premised on an absence of market power in the tying service, its silence on the economic interest requirement should not be construed as disapproval.

\textsuperscript{196} \textit{Id.}
\textsuperscript{197} \textit{Id.} at 209 (stating that “a plaintiff must show that the tying arrangement involves a seller who competes in the tying product’s line of commerce as well as participates for profit in the tied product market”) (citing Rodrigue v. Chrysler Corp., 421 F. Supp. 903 (E.D. La. 1976)).
\textsuperscript{198} \textit{Carl Sandburg Vill.}, 758 F.2d at 209.
\textsuperscript{199} 912 F.2d 138, 144 (6th Cir. 1990). The tying arrangement in \textit{Beard} involved an agreement whereby patients receiving care at a hospital (the tying service) could only use radiologists from a single radiology firm (the tied service). \textit{Id.} at 139.
\textsuperscript{200} \textit{Id.} at 141-43.
\textsuperscript{201} \textit{Id.} at 142.
\textsuperscript{202} \textit{Id.}
of the requirement.\textsuperscript{203} It also stated that, while \textit{Jefferson Parish} did not list the economic interest requirement as a part of the \textit{per se} test, the requirement is “consistent with the Court’s explanation of what an illegal tying arrangement is.”\textsuperscript{204} The \textit{Beard} court alleges that the Supreme Court’s condemnation of the use of power in the tying market to impair competition in the tied market leads to the conclusion that arrangements where the tying seller has no economic interest in the tied market are harmless because the tying seller “is not attempting to invade the alleged tied product or service market.”\textsuperscript{205} The Sixth Circuit concluded by rejecting a contrary construction of \textit{Jefferson Parish} from the Second Circuit\textsuperscript{206} and upholding the tying arrangement because the plaintiff failed to satisfy the economic interest requirement.\textsuperscript{207}

Several erudite antitrust scholars also favor the economic interest requirement, and offer compelling economic justifications for its implementation.\textsuperscript{208} Professors Phillip E. Areeda and Herbert Hovenkamp argue that “[a]llowing the allegedly tied customers to obtain the tied product from suppliers in which the defendant has no financial interest ends most or all of the fears underlying the \textit{per se} rule against tying.”\textsuperscript{209} These fears are allayed in the absence of a tying seller’s economic interest in the tied market for four reasons: (1) the defendant cannot gain power in the tied market by requiring customers to patronize unrelated firms there; (2) giving the tied firm the ability to charge supra-competitive prices in the tied market would normally injure the tying firm (because customers would be less inclined to

\begin{itemize}
\item \textsuperscript{203} \textit{Id.}
\item \textsuperscript{204} \textit{Id.} (citing Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 14-15 (1984) “if [market power in the tying market] is used to impair competition on the merits in another market, a potentially inferior product may be insulated from competitive pressures”).
\item \textsuperscript{205} \textit{Beard}, 912 F.2d at 142.
\item \textsuperscript{206} Gonzalez v. St. Margaret’s House Hous. Dev. Fund Corp., 880 F.2d 1514 (2d Cir. 1989).
\item \textsuperscript{207} \textit{Beard}, 912 F.2d at 143.
\item \textsuperscript{208} 9 \textsc{AREEDA & HOVENKAMP}, \textit{supra} note 15, ¶ 1726d.
\item \textsuperscript{209} \textit{Id.} at ¶ 1726a.
\end{itemize}
participate in the agreement and purchase the tying product; (3) exploitation of power over the tying product (such as price discrimination) cannot result from the arrangement if the defendant receives no portion of the revenues from the tied product; and (4) once the three preceding functions of tying arrangements are put aside, the alleged tie-in is likely to be pro-competitive in both motivation and effect.\footnote{9 PHILLIP E. AREEDA, ANTITRUST LAW ¶ 1726a (1991).}

\section*{B. Attacks Against the Economic Interest Requirement’s Implementation in the Per Se Tying Analysis}

The economic interest requirement has fallen into disfavor among some courts and scholars since the Jefferson Parish opinion.\footnote{See, e.g., Gonzalez, 880 F.2d at 1514; Parts & Elec. Motors, Inc. v. Sterling Elec., Inc., 826 F.2d 712 (7th Cir. 1987); Young, supra note 123; Warren S. Grimes, Antitrust Tie-In Analysis After Kodak: Understanding the Role of Market Imperfections, 62 ANTITRUST L.J. 263 (1994).} Even the Seventh Circuit, who favored the inquiry in Carl Sandburg Village, and in the majority of its recent decision in Reifert, has voiced disapproval of the requirement’s use in the per se tying analysis.\footnote{Parts & Elec. Motors, 826 F.2d at 712.} Opponents of the economic interest requirement’s implementation in the per se tying analysis express that the Jefferson Parish majority “focused primarily on the anticompetitive effect of tying arrangements and the resultant harm to consumer choice in the tied-product market,”\footnote{Gonzalez, 880 F.2d at 1517.} and that the predatory aspects of a tie (the invasion of the tied market by the tying seller, as explained in Carl Sandburg Village\footnote{See Carl Sandburg Vill. Condo. Ass’n No. 1 v. First Condo. Dev. Co., 758 F.2d 203, 208 (7th Cir. 1985).} are not the sole reason for their condemnation.\footnote{Young, supra note 123, at 1365.}

Judge Wood explained in her Reifert concurrence that the Jefferson Parish majority held that a tying arrangement with two different products is illegal per se where “a substantial volume of
commerce is foreclosed by the arrangement,” and where the “seller [of the tying product] has market power.”\textsuperscript{216} On these grounds, she objected to the Reifert majority’s use of the economic interest factor as “anticipat[ing] the Supreme Court’s overruling of its earlier decisions” by adding another requirement to the \textit{per se} tying analysis.\textsuperscript{217} While Judge Wood admits that the test the majority applies may “be a more sensible way to approach all tying cases,” she refuses to accede to the test and instead opts to “take a more cautious approach, and leave further developments in tying law to the high court.”\textsuperscript{218}

Judge Wood’s concurring opinion in Reifert did not mark the first time the Seventh Circuit disapproved of the economic interest requirement’s implementation in the \textit{per se} tying analysis. It expressed doubt in the requirement’s relevance to the \textit{per se} tying analysis in \textit{P&E}.\textsuperscript{219} The court recognized that \textit{Jefferson Parish} controls \textit{Carl Sandburg Village} (decided two years prior to \textit{P&E}), and examined Justice Stevens’ \textit{Jefferson Parish} majority opinion in-depth to determine whether the holding endorsed the economic interest requirement approved by the Seventh Circuit in \textit{Carl Sandburg Village}.\textsuperscript{220} Conversely, the \textit{Carl Sandburg Village} opinion cited only Justice O’Connor’s \textit{Jefferson Parish} concurrence in asserting that “[o]ne of the threshold criteria that a plaintiff must satisfy under . . . the \textit{per se} . . . analys[is] . . . is that there is a substantial danger that the tying seller will acquire market power in the tied product market.”\textsuperscript{221}

In \textit{P&E}, the Seventh Circuit noted that the \textit{Jefferson Parish} majority quoted Justice White’s dissent in \textit{Fortner I} with approval: “[t]he tying seller may be working toward a monopoly position in the tied product and, \textit{even if he is not}, the practice of tying forecloses other

\textsuperscript{216} Reifert v. S. Cent. Wis. MLS Corp., 450 F.3d 312, 322 (7th Cir. 2006) (Wood, J. concurring).
\textsuperscript{217} \textit{Id.} at 323.
\textsuperscript{218} \textit{Id.} at 321-323.
\textsuperscript{219} Parts & Elec. Motors, Inc. v. Sterling Elec., Inc., 826 F.2d 712 (7th Cir. 1987).
\textsuperscript{220} \textit{Id.} at 718.
\textsuperscript{221} Carl Sandburg Vill. Condo. Ass’n No. 1 v. First Condo. Dev. Co., 758 F.2d 203, 210 (7th Cir. 1985).
sellers of the tied product and makes it more difficult for new firms to enter that market.” It used this language to explain that Justice Stevens’ opinion “does not seem to suggest any role for the threat of market power in the tied product market as a factor in the per se tying analysis.” While the P&E court conducted the Seventh Circuit’s most thorough analysis of the economic interest requirement’s place under the Jefferson Parish majority’s opinion, it specifically designated its analysis as mere dicta.

However, the Second Circuit approved of the Seventh Circuit’s dicta in P&E, and expressly adopted it in its holding in Gonzalez. This court agreed with the Seventh Circuit in P&E that the Supreme Court has not yet “cut back on the application of tie-in doctrine by incorporating [the economic interest] requirement into the test for an illegal tying arrangement.” For this reason, the Gonzalez court explicitly held that “[t]he majority in Jefferson Parish does not require any ‘economic interest’ by the tying seller in the tied-product market.”


223 Parts & Elec. Motors, 826 F.2d at 718.

224 Id. at 719 (stating “whatever the law may be or ought to become, in this case the question is moot since the issue of threatened market power in the tied product market was waived by [the defendant].”).


226 Id. (citing Parts & Elec. Motors, 826 F.2d at 718 n.5); see also Gordon B. Spivack and Carolyn T. Ellis, Kodak: Enlightened Antitrust Analysis and Traditional Tying Law, 62 ANTITRUST L.J. 203, n.34 (1993) (explaining that the Supreme Court in Kodak v. Image Technical Servs., Inc., 504 U.S. 451 (1992), by reaffirming the Jefferson Parish per se tying inquiry, “imposed no requirement that the plaintiff prove that market power in the tied product results, or is likely to result from the tie”).

227 Gonzalez, 880 F.2d at 1517. This court concluded by expressing that the per se tying analysis has “weaknesses” and that it is “virtually certain” that the agreement at issue “would survive scrutiny” under the rule of reason; nevertheless
While the foregoing arguments against the economic interest requirement mainly address its propriety in the Jefferson Parish per se framework, its effectiveness in a per se tying analysis has also been questioned by several commentators. One commentator contends both that the requirement has no place under the Jefferson Parish framework and that it is irrelevant to the per se structure. Under this commentator’s analysis, “all ties restrict the freedom of tied-product buyers to purchase products based on the merits of that product, resulting in a lessening of competition in the tied product market,” and the “economic interest requirement ignores these effects.” He concludes that the critical question is the degree of foreclosure in the tied market, “not the tying seller’s motivation for imposing the tie.”

Practical litigation concerns prompted another commentator to criticize the economic interest requirement. According to this commentator, effectively “tracing the financial links” between certain types of entities may prove virtually impossible for a plaintiff. According to him, such a task “should be wholly unnecessary if the elements of a harmful tie have been demonstrated.”

the court acknowledged that it “must, of course, adhere to the views of a majority of the Supreme Court.” Id. at 1519.

228 Young, supra note 123; Grimes, supra note 211.
229 Young, supra note 123
230 Id. at 1365-66.
231 Id. at 1368.
232 Grimes, supra note 211.
233 Id. at 318. Specifically, the author of this article references separate subsidiaries of a parent corporation. See Grimes, supra note 211.
234 Grimes, supra note 211, at 318.
235 Id.; see also Carl Sandburg Vill. Condo. Ass’n No. 1 v. First Condo. Dev. Co., 758 F.2d 203, 209 (7th Cir. 1985) (acknowledging that “it might be difficult for a plaintiff to allege the economic interest element in a case of secret rebates or discounts where the plaintiff has not had the benefit of discovery”).
C. The Economic Interest Requirement Controversy in Reifert

However well-justified the policy considerations favoring the economic interest requirement may be, the circuit courts must remember that the Jefferson Parish majority’s *per se* analysis continues to dictate the legality of tying arrangements. Resultantly, the Seventh Circuit’s stated analysis of the tying arrangement in Reifert was incorrect. While the outcome of the case was unaffected by the Reifert majority’s error, Judge Wood’s more conservative concurrence correctly stated the application of existing Supreme Court precedent.

As discussed above, Jefferson Parish explicitly stated that a tying arrangement involving two separate products or services is illegal *per se* where the tying seller has market power, and a substantial amount of commerce is affected. The Court favored the idea that even if a tying seller is not working toward a monopoly position in the tied market, tying arrangements still have anticompetitive consequences by foreclosing other sellers of the tied product from the tied product market. Leading up to Jefferson Parish, a body of circuit-court case law grew favoring the economic interest requirement in the *per se* tying analysis; but the Court in Jefferson Parish, while not explicitly addressing the economic interest requirement, “refocused the inquiry” on the degree of foreclosure of commerce (as an anticompetitive effect) in the tied market, “rather than on the tying seller’s motivation to invade a second market.” The Seventh Circuit itself observed that Jefferson Parish “does not seem to suggest any role” for the

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236 Reifert v. S. Cent. Wis. MLS, 450 F.3d 312, 320 (7th Cir. 2006) (the case’s dismissal for failure to show foreclosure in the tied product market made it unnecessary for the majority to address whether the defendant had “a sufficient economic interest in the sales of the tied product to satisfy the [economic interest requirement]”).


238 *Id.* at 13 n.19 (quoting Fortner Enter. v. United States Steel Corp., 394 U.S. 495, 513 (1969) (White, J. dissenting)).

239 Young, *supra* note 123, at 1367.
motivation of the tying seller to gain market power in the tied product market as a factor in the per se tying analysis.240

Nevertheless, Judge Flaum, citing the Carl Sandburg Village decision that he penned in 1985, reasserted the economic interest requirement in Reifert. Judge Wood correctly noted that this aspect of the Reifert opinion is in “tension with the governing Supreme Court doctrine.”241 As stated in Section II, the Reifert concurrence’s “more cautious approach,” which omitted the economic interest requirement and mirrored the tying analysis expressed in Jefferson Parish, warranted the same result as the majority.242 The majority and concurring opinions in the Reifert case differed in that the concurrence remained faithful to the Supreme Court’s instruction to the circuit courts “not to anticipate an overruling of a decision by the Court.”243

While the economic interest requirement referenced by the Reifert majority may assist in determining the likelihood that the tying seller is attempting to parlay market power in the tying market into market power in the tied market, this inquiry has no place in the Jefferson Parish per se tying analysis. Because the Supreme Court has never recognized the economic interest requirement as a prerequisite in the per se tying analysis, I would join in Judge Wood’s concurrence wherein she applied the Jefferson Parish per se standard to reach her holding, but also expressed doubt in the effectiveness of the analysis.

IV. THE FUTURE OF THE PER SE TYING ANALYSIS

The turmoil and tumult created by the per se tying analysis is obvious through the divided reasoning between Reifert’s majority and

241 Reifert 450 F.3d at 321 (Wood, J. concurring).
242 Id. at 321-23.
243 Khan v. State Oil Co., 93 F.3d 1358, 1363 (7th Cir. 1996), rev’d on other grounds, State Oil v. Khan, 522 U.S. 3, 20 (1997) (stating “[t]he Court of Appeals was correct in applying [stare decisis] despite disagreement with [previous Supreme Court case law], for it is this Court’s prerogative alone to overrule one of its precedents”).
concurring opinions. Moreover, the circuits’ argument regarding the economic interest requirement’s applicability bespeaks a problem with the per se tying analysis itself. Judge Flaum, writing the Reifert majority opinion, observed that while the Supreme Court has never expressly overruled the per se tying test evinced in Jefferson Parish, it recently adopted Justice O’Connor’s reasoning (from her Jefferson Parish concurrence) with respect to tying arrangements involving patents.244 Justice O’Connor’s call to jettison the per se standard for tying arrangements has been endorsed as sound policy by scholars and judges.245 Even Judge Wood, in her Reifert concurrence, speculated that a rule of reason analysis may “be a more sensible way to approach all tying cases.”246

Antitrust law’s per se analysis is beneficial in that it provides clarity and simplicity to courts assessing firms’ commercial behavior.247 To effectuate this end, per se illegality eliminates an in-depth market analysis as to the motivations of anticompetitive behavior and a balancing of the positive and negative effects of such behavior.248 Therefore, it is reserved for agreements or actions deemed so anticompetitive that they warrant a presumption of illegality regardless of their actual effects.249

The per se tying analysis fails in providing clarity and simplicity to courts assessing tying arrangements.250 The market power requirement creates an inherent difficulty for courts.251 Uncertainty

244 Reifert, 450 F.3d at 317 n.2 (citing Ill. Tool Works, Inc. v. Indep. Ink, Inc., 126 S.Ct. 1281 (2006)). In Ill. Tool Works, the Supreme Court held that existence of a patent on the tying product does not automatically infer sufficient market power in the tying market. 126 S.Ct 1281.
245 See supra note 107.
246 Reifert 450 F.3d at 323 (Wood, J. concurring).
249 Id.
250 9 AREEDA & HOVENKAMP, supra note 15, ¶ 1730b.
251 Id.
about market definition,252 the importance of intellectual property,253 and the importance of market imperfections254 have clouded the clarity of the per se tying analysis. The separate product requirement has also created confusion, and has “become highly indeterminate and often metaphysical.”255 Resultantly, Justice O’Connor was quite justified in contending that “tying doctrine incurs the costs of a rule-of-reason approach without achieving its benefits: the doctrine calls for the extensive and time-consuming economic analysis characteristic of the rule of reason, but then may be interpreted to prohibit arrangements that economic analysis would show to be beneficial.”256

Additionally, a more extensive economic understanding of tying arrangements shows that they are capable of many procompetitive effects.257 Among these redeeming characteristics are (1) the protection of product quality, (2) the lowering of production costs, (3) the increase of competition through indirect price cuts, and (4) the easing of entry into new markets.258 A tying arrangement can protect a product’s quality by ensuring that the necessary supplies or repairs are provided or performed exclusively by the defendant.259 Moreover, selling or producing two products together can reduce a seller’s costs, and this reduction may be passed on to the consumer.260 Producers may also combine two products and sell them for less than the sum of

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252 Town Sound and Custom Tops, Inc. v. Chrysler Motors Corp., 959 F.2d 468, 480 (3d Cir. 1992).
255 9 AREEDA & HOVENKAMP, supra note 15, ¶1730b.
256 Jefferson Parish, 466 U.S. 2 at 34 (O’Connor, J. concurring).
257 9 AREEDA & HOVENKAMP, supra note 15, ¶1703g.
258 Id.
259 Id.; but see Int’l Salt Co. v. United States, 332 U.S. 392 (1947) (arguing that this goal can be accomplished just as easily by informing the consumer of the necessary procedures to maintain the quality of the tying product).
260 9 AREEDA & HOVENKAMP, supra note 15, ¶1703g.
the price of each individual product; while rival firms may object to this tactic, consumers will realize a benefit in a lower purchase price.\textsuperscript{261} Further, a tie can guarantee a seller a certain volume of patronage upon entering a new market.\textsuperscript{262} Again, while competitors in the tied market may object to the tie, it would be procompetitive in the tied market (as long as it does not foreclose a large portion of the tied market) even if the tying seller had a monopoly in the tying market.\textsuperscript{263}

Today's understanding of tying arrangements would presumably lead to a rule of reason approach in the absence of existing Supreme Court precedent.\textsuperscript{264} However, the expansive body of Supreme Court case law examined in Part I requires today's courts to apply \textit{stare decisis}.\textsuperscript{265} While the importance of the doctrine of \textit{stare decisis} in American jurisprudence cannot be overstated,\textsuperscript{266} it is "not an inexorable command."\textsuperscript{267} The Supreme Court has explained that it will detour from the \textit{stare decisis} path only for articulable reasons, and where the Court must bring its opinions into agreement with its experience and newly ascertained facts.\textsuperscript{268}

In his later years, Thomas Jefferson remarked that while "frequent and untried changes in laws" are ill-advised, laws "must go hand in hand with the progress of the human mind," and "[a]s [the mind]
becomes more developed, more enlightened, as new discoveries are made, new truths disclosed, and manners and opinions change with the change of circumstances, institutions must advance also, and keep pace with the times. 269 In light of the current understanding of tying arrangements, I believe that we should abolish the per se tying standard. It eliminates the necessity of an inquiry into the arrangement’s effects (some of which may benefit consumers), and fails to create clarity and simplicity in assessing tying arrangements. Thusly, the per se standard, as applied to tying arrangements, has “most of the disadvantages of the standard rule of reason, without the advantages of either” the rule of reason or the per se analysis. 270 Further, I surmise that the per se analysis will one day be renounced by the Supreme Court in favor of a rule of reason approach; this change will be justified by the continuing difficulties the per se analysis imposes on the courts, and the well-reasoned criticism of its implementation. 271

CONCLUSION

While prevailing opinion on the evils of tying arrangements has changed since the early days of the Supreme Court’s per se stance, 272 the per se analysis from the Jefferson Parish majority continues to dictate the legality of tying arrangements. 273 The Court will likely

269 Letter from Thomas Jefferson to Samuel Kercheval (July 12, 1816) (on file with the Library of Congress).
270 9 AREEDA & HOVENKAMP, supra note 15, ¶ 1730b.
272 Compare Standard Oil Co. v. United States 337 U.S. 293, 305 (1949) (stating that “tying agreements serve hardly any purpose beyond the suppression of competition”), with Ill. Tool Works, Inc. v. Indep. Ink, Inc., 126 S.Ct. 1281, 1292 (2006) (explaining that “[m]any tying arrangements, even those involving patents and requirements ties, are fully consistent with a free, competitive market”).
273 Ill. Tool Works, 126 S.Ct. at 1291 (endorsing the Jefferson Parish majority’s tying framework).
someday recognize that changes in policy considerations and economic theory favor moving from the *per se* standard in assessing tying arrangements to a rule of reason inquiry; but until that day arrives, the circuit courts must implement the *per se* analysis evinced in *Jefferson Parish*. Consequently, the *Reifert* majority’s failure to operate within the existing Supreme Court doctrine was correctly criticized by Judge Wood in her concurrence.

The Seventh Circuit’s approval of the economic interest factor added another prerequisite to liability under the Supreme Court’s *per se* tying analysis. It is the Supreme Court’s decision alone\(^{274}\) whether to relax the *per se* noose around tying arrangements by adding more prerequisites to the analysis, or whether to untie the noose all together by abolishing the *per se* analysis in favor of a rule of reason approach. Although the *Reifert* holding was not affected by the majority’s error, its analysis anticipated the overruling of existing Supreme Court precedent, and as a result improperly included the economic interest factor in its *per se* tying analysis.

CLASS(LESS) ACTION REFORM

ERIC Y. CHOI*


INTRODUCTION

Class actions provide an important mechanism for plaintiffs to obtain justice where they would otherwise have no recourse. Those willing to wield its power use class actions to aggregate their claims with other similarly situated individuals. This combined force is often the only way to fight large corporations that would otherwise be impervious to individual claims. One of the primary goals of the class action is to give an individual a realistic and economic opportunity to obtain redress.1 Unfortunately, the nature of class action lawsuits is not as straightforward as many of its purported goals. As the Seventh Circuit Court of Appeals has stated, “the class action is an awkward device, requiring careful judicial supervision.”2 Indeed, with recent changes in the legal landscape of class actions,3 it has become particularly important for courts to operate with careful regard to the demands of class actions. The Seventh Circuit, a strong advocate of class action reform, has attempted to lead in this respect.4


1 S. REP. 109-14, at 83 (2005).

2 Culver v. City of Milwaukee, 277 F.3d 908, 910 (7th Cir. 2002).


As a general matter, the Seventh Circuit has exhibited a high level of distrust towards class action counsel operating on the state level.\(^5\) Class action plaintiffs and their counsel, surely aware of this distrust, have taken specific steps to avoid removal of class actions filed in Illinois state courts.\(^6\) Recent legislation, however, has further broadened federal jurisdiction over class actions with diverse parties, making it even more difficult for class action plaintiffs to avoid federal courts.\(^7\) Notwithstanding the major changes initiated by the Class Action Fairness Act ("CAFA"),\(^8\) the Seventh Circuit continues to express its distrust of class action counsel and the state level courts that adjudicate class action cases.\(^9\)

In *Carol B. Oshana v. Coca-Cola Co.*, the Seventh Circuit recently affirmed a defendant’s removal of a class action, even though the plaintiff had expressly disclaimed damages over $75,000.\(^10\) The court found that the defendant’s “good faith belief” that the amount in controversy would exceed $75,000 outweighed the plaintiff’s express disclaimer waiving damages of over $75,000 in her complaint.\(^11\) The court also affirmed the lower court’s decision not to certify a class.\(^12\) It

\(^5\) *Id.* at 837.

\(^6\) *E.g.*, *Oshana v. Coca-Cola Co.*, 472 F.3d 506, 511 (7th Cir. 2006) (plaintiff disclaimed relief exceeding $75,000 in order to avoid federal diversity jurisdiction).


\(^8\) *Id.* Prior to CAFA, class action plaintiffs could avoid federal diversity jurisdiction by disclaiming individual amounts in controversy exceeding $75,000. 28 U.S.C. § 1332(a) (2005); *St. Paul Mercury Indem. Co. v. Red Cab Co.*, 303 U.S. 283 (1938). Now under CAFA, class action plaintiffs may still do so; however, federal courts may have jurisdiction in class actions where the aggregate amount in controversy exceeds $5,000,000. 28 U.S.C. § 1332(d)(2), as amended by the Class Action Fairness Act of 2005, Pub. L. 109-2, 119 Stat. 4 (2005).


\(^10\) *Oshana*, 472 F.3d at 510; *see* 28 U.S.C. § 1332(a) (2005) (a defendant can remove a civil action on the basis of diversity only if, among other things, the plaintiff’s amount in controversy exceeds $75,000).

\(^11\) *Oshana*, 472 F.3d at 512.

\(^12\) *Id.* at 513. Class certification is a prerequisite to a class action. *FED. R. CIV. P.* 23(a).
did so using an unfamiliar rule,\textsuperscript{13} potentially creating an impossible standard for certain future class action plaintiffs.

This Note is divided into four Sections. Section I provides a brief background on class action law. Section II will touch on the Seventh Circuit’s treatment of class action cases. Section III outlines the Seventh Circuit’s ruling in \textit{Oshana v. Coca-Cola}. Section IV delves deeper into the Seventh Circuit’s holding, analyzing where the court went wrong. Finally, this Note cautions that \textit{Oshana v. Coca-Cola} will adversely affect plaintiff classes by unnecessarily narrowing the path to redress.

\section*{I. A BRIEF LOOK AT CLASS ACTION LAW}

The general concept of class actions was first codified in 1849 under the Field Code.\textsuperscript{14} In 1938, Congress drafted and adopted Rule 23 of the Federal Rules of Civil Procedure, the first federal class action rule of its kind.\textsuperscript{15} Originally, this rule was “to create a class action system which could deal with civil rights, and, explicitly, segregation.”\textsuperscript{16} After substantial amendments to the rule, and after successful persuasion by attorneys, judges began to expand class actions to the area of mass torts.\textsuperscript{17} Initially, judges were increasingly willing to certify these types of classes, believing that individual claims would cause serious inefficiencies in state judicial systems.\textsuperscript{18} That reasoning continues to be a primary purpose of class actions.\textsuperscript{19}

\begin{thebibliography}{9}
\bibitem{13} \textit{Oshana}, 472 F.3d at 513-14.
\bibitem{15} \textit{Id.} at 1149.
\bibitem{17} S. Rep. 109-14, at 7 (2005).
\bibitem{18} \textit{Id.}
\bibitem{19} See id.; Alba Conte & Herbert B. Newberg, \textit{Newberg on Class Actions} § 1.1 (4th ed. 2006).
\end{thebibliography}
Today, the class action is commonly known as the weapon of choice for plaintiffs claiming mass personal injuries and products liability cases. Its effectiveness is derived from the combined force of similarly situated plaintiffs that share common questions of law and fact, giving each a cost-efficient means to obtain redress. Often, individual litigants’ claims are “too small to justify legal action.” But when taken as a whole, numerous litigants can move with greater force with a single claim that warrants litigation. Class actions are also capable of achieving tremendous economies of scale by consolidating similar claims. Accordingly, class actions avoid multiple suits, concurrently producing uniform rulings and holdings across a multitude of similarly situated plaintiffs.

Plaintiffs typically file class actions in state courts. And defendants frequently remove these actions to federal courts through the basis of diversity. Plaintiffs prefer state courts for several reasons. For one, plaintiffs win more often in state courts than in the federal forum. Some have asserted that class action plaintiffs file in state courts because of their “perception of prejudice against corporate defendants, a relaxed approach to class certification, and jurors willing

20 See CONTE & NEWBERG, supra note 19, at § 1.1.
22 Id.
23 Id.
27 Id.
to return large monetary verdicts against the defendant." Defendants are eager to remove class actions likely for the same reasons.

With this in mind, class action reformists steadfastly believe that plaintiffs in class actions are unfairly advantaged in state courts, especially when their counsel has selectively chosen a forum that he or she believes will be lenient to the class. These reformists claim that the resultant holdings and interpretations of laws are then inconsistently applied to parties that span multiple jurisdictions. Also, reformists are concerned that the interests of class members are often overlooked, with counsel achieving tremendous settlement amounts, and consumers achieving little, if anything, in redress.

To address these concerns, Congress recently passed CAFA, which made major changes to class action law, expanding federal courts’ diversity jurisdiction over class action cases. Prior to CAFA, defendants to a class action could only remove the suit if it involved a federal question or if the requirements of diversity jurisdiction had been met. Diversity requirements were often difficult to meet: each named class representative had to be diverse from all named defendants and, until 2005, the Supreme Court held that each class member had to claim an amount in controversy exceeding the statutory minimum. Now with CAFA, Congress has vastly expanded federal

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31 See generally S. REP. 109-14. Class action reformists believe that the majority of class action counsel “game” the procedural rules of class actions, keeping multi-state class actions in “state courts whose judges have reputations for readily certifying classes and approving settlements.” Id. at 4.

32 Id.

33 Id.


37 Exxon Corp. v. Allapattah Servs. Inc., 545 U.S. 546, 558-59 (2005) (holding that a federal court could exercise supplemental jurisdiction over all plaintiffs in a
jurisdiction over diverse parties of a class action where: (1) any one plaintiff (named or unnamed) is diverse from any one defendant; (2) the amount in controversy can now be calculated as an aggregate amount in controversy ($5,000,000); and (3) there are at least 100 members in the proposed class. 38

Once a class action has reached its jurisdictional seat, the plaintiff moves to certify a class. 39 The majority of states, including Illinois, 40 have adopted Rule 23 of the Federal Rules of Civil Procedure, sometimes with minor revisions. 41 If a class action is tried in one of these states, or if it has been removed to a federal court, class certification will require a showing that: the class is sufficiently large, the claims are common, the claims of the class representative are typical of those of the class, the class is adequately represented, and questions of law or fact predominate over the class. 42

Proponents of class action reform welcome pro-reform legislation like CAFA, particularly for its federalizing power. 43 Often with only a cursory analysis, reformists claim that state court judges are too “lax” when applying certification requirements. 44 They also believe that federal courts will “generally . . . pay closer attention to the procedural requirements for certifying a matter for class treatment.” 45 Reformists presumably reach this conclusion based on federal courts’ reluctance to certify a class. 46

39 FED. R. CIV. P. 23.
40 735 ILL. COMP. STAT. ANN. 5/2-801 (1998).
42 FED. R. CIV. P. 23.
44 Id. at 14.
45 Id.
II. SEVENTH CIRCUIT ON CLASS ACTIONS

The Seventh Circuit has consistently expressed its disdain for class actions by adjudicating cases, often unfairly, in favor of defendants. For example, in 1995, the Seventh Circuit decided a case that has now become an oft-cited example of the federal judiciary’s disdain for certifying class actions.\(^47\) From 1996 to 2005, the Seventh Circuit led a pro-defendant stance in a circuit split regarding diversity jurisdiction as it applied to class actions.\(^48\) After CAFA was enacted in 2005, the Seventh Circuit chose to interpret the statute and the legislative history in favor of defendants attempting to remove class action cases commenced prior to the effective date of CAFA.\(^49\) Finally, even with the expansive reach of CAFA’s federal diversity jurisdiction laws, the Seventh Circuit continues to federalize class actions that should be adjudicated on the state level.\(^50\)

In 1973, the Supreme Court ruled that in class actions, each class member’s claims had to independently satisfy the amount in controversy requirement in order to qualify for diversity jurisdiction.\(^51\) In 1990, Congress passed the Judicial Improvements Act, conferring supplemental jurisdiction on federal courts.\(^52\) The Seventh Circuit was the first of four circuits to interpret the act in favor of class action defendants: federal district courts would now have the authority to exercise supplemental jurisdiction over all class action plaintiffs if just

\(^{47}\) In re Rhone-Poulenc River, Inc., 51 F.3d 1293 (7th Cir. 1995).
\(^{48}\) In re Brand Name Prescription Drugs, 123 F.3d 599, 607 (7th Cir. 1997); Stromberg Metal Works, Inc. v. Press Mech., Inc., 77 F.3d 928 (7th Cir. 1996); see also S. REP. 109-14, at nn.28 & 29.
\(^{50}\) Oshana, 472 F.3d 506.
one plaintiff satisfied the amount in controversy.\textsuperscript{53} The Seventh Circuit was steadfast in its stance up and through 2005, when the Supreme Court finally held that a federal district court could exercise supplemental jurisdiction over a putative class where only one plaintiff satisfied the amount in controversy.\textsuperscript{54}

In 1995, the Seventh Circuit wrote a heavily criticized opinion regarding a class action\textsuperscript{55} that has now become an example of one federal court’s express disdain for class actions.\textsuperscript{56} In \textit{In re Rhone-Poulenc Rorer Inc.}, Judge Posner issued a writ of mandamus against the trial judge, decertifying a class “[w]ithout attempting to demonstrate that the putative plaintiff class did not meet the requirements of Federal Rule 23.”\textsuperscript{57} Instead, Posner relied on two primary arguments, each ignoring the analysis required in Rule 23.\textsuperscript{58} First, Posner stated that the case had “demonstrated [a] great likelihood that the plaintiffs’ claims, despite their human appeal, lack[ed] legal merit.”\textsuperscript{59} He drew this from an “inference from the defendants having won 92.3 percent (12/13) of the cases to have gone to judgment.”\textsuperscript{60} The court stated that it was “concern[ed] with forcing these defendants to stake their companies on the outcome of a single jury trial, or be forced by fear of the risk of bankruptcy to settle even if they had no legal liability.”\textsuperscript{61} The Seventh Circuit’s analysis of the twelve of thirteen cases that had gone to judgment has been characterized as nothing more than a “merits assessment in thin

\begin{footnotesize}
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\item \textsuperscript{53} Stromberg, 77 F.3d 928; see also Exxon Corp. v. Allapattah Servs., 545 U.S. 546, 550 (2005); Olden v. LaFarge Corp., 383 F.3d 495 (6th Cir. 2004); Allapattah Servs., Inc. v. Exxon Corp., 333 F.3d 1248 (11th Cir. 2003); Rosmer v. Pfizer, Inc., 263 F.3d 110 (4th Cir. 2001).
\item \textsuperscript{54} Exxon Corp., 545 U.S. at 550.
\item \textsuperscript{55} In re Rhone-Poulenc River, Inc., 51 F.3d 1293 (7th Cir. 1995).
\item \textsuperscript{56} Danas, \textit{supra} note 24, at 1315. Class action reformists, on the other hand, “consistently embrace[] these opinions.” \textit{Id}.
\item \textsuperscript{57} \textit{Id}.
\item \textsuperscript{58} \textit{Rhone-Poulenc}, 51 F.3d at 1299.
\item \textsuperscript{59} \textit{Id}.
\item \textsuperscript{60} \textit{Id}.
\item \textsuperscript{61} \textit{Id}.
\end{itemize}
\end{footnotesize}
disguise.”62 Such an assessment flies in the face of the “fundamental tenet of federal class action law that a court should not evaluate the merits of a claim at the certification stage.”63 In her dissent, Judge Rovner questioned the majority’s comment that the defendants had too much at stake for a single jury to decide on.64 Rovner focused on Federal Rule 23, stating that the majority’s contentions were at odds with Rule 23; certification of a class was to be based on the requirements of Rule 23, “regardless of the magnitude of potential liability.”65

Since February 2005, the Seventh Circuit has been busy interpreting and applying CAFA.66 In *Knudsen v. Liberty Mutual Insurance Co.*, the Seventh Circuit held that CAFA applied to a class action that was filed in state court prior to CAFA’s effective date.67 After the state court entered a default judgment on the merits against defendant insurance company for its “egregious” behavior, the representative plaintiff requested that the state court certify a class that would hold the defendant responsible for all policies issued by any of its subsidiaries or affiliates.68 On an interlocutory appeal, the Seventh Circuit held that such a request constituted a claim that did not relate back to the original complaint, where the original complaint did not

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63 Danas, *supra* note 24, at 1315 (citing *Eisen v. Carlisle and Jacquelin*, 417 U.S. 156, 177-78 (1974); *Blackie v. Barrack*, 524 F.2d 891, 901 (9th Cir. 1975)).
64 *Rhone-Poulenc*, 51 F.3d at 1307 (Rovner, J., dissenting).
65 *Id.* at 1308 (Rovner, J., dissenting).
67 435 F.3d 755 (7th Cir. 2006).
68 *Id* at 756.
include all of the defendants’ allegedly unfair policies.\textsuperscript{69} Notwithstanding that the class action had commenced prior to CAFA, the Seventh Circuit held that such a request was considered a “novel claim,” one which would bring the class action within the scope of CAFA.\textsuperscript{70}

III. \textit{OSHANA V. COCA-COLA}

In one of its most recent class action cases, the Seventh Circuit affirmed the removal of a plaintiff’s class action despite her expressly disclaiming damages above $75,000.\textsuperscript{71} The court then held that class certification was properly denied.\textsuperscript{72} In \textit{Oshana v. Coca-Cola}, the plaintiff, Oshana, filed a putative class action against Coke in an Illinois state court alleging that Coke had violated the Illinois Consumer Fraud and Deceptive Practices Act (“ICFA”) and had also been unjustly enriched.\textsuperscript{73} Oshana alleged that Coke tricked consumers into believing that fountain Diet Coke and bottled Diet Coke contained the same ingredients.\textsuperscript{74} Specifically, Oshana claimed, in relevant part, that Coke advertised that Diet Coke was sweetened with 100% aspartame, when in fact, fountain Diet Coke contained a mixture of both aspartame and saccharin.\textsuperscript{75} Despite Oshana disclaiming individual damages over $75,000, Coke removed the class action to federal court and defeated Oshana’s motion for class certification.\textsuperscript{76}

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\item \textsuperscript{69} Id.
\item \textsuperscript{70} Id. at 758.
\item \textsuperscript{71} Oshana v. Coca-Cola Co., 472 F.3d 506 (7th Cir. 2006), \textit{reh`g en banc denied}.
\item \textsuperscript{72} Id. at 513.
\item \textsuperscript{73} The originally named plaintiff was David Hahn. Id. at 509, n.1. Carol Oshana substituted Hahn after he voluntarily withdrew. Id. For the purposes of this Note, plaintiff will be referred to as Oshana.
\item \textsuperscript{74} Id. at 509.
\item \textsuperscript{75} Aspartame and saccharin are artificial sweeteners. They are distinguishable both chemically and by preference. Leticia M. Diaz, \textit{Sucralose: The Sugar of the New Millennium—FDA’s Role: A Hindrance or a Help?}, 34 \textit{NEW ENG. L. REV.} 363, 374-77 (2000).
\item \textsuperscript{76} Oshana, 472 F.3d at 509-10.
\end{itemize}
Coke made an offer of judgment for $650 plus reasonable attorneys’ fees and costs, and Oshana accepted, reserving the right to appeal the issues of jurisdiction and the denial of class certification. The Seventh Circuit affirmed both rulings of the district court. A motion for rehearing en banc was denied.

Oshana brought this class action on behalf of “[a]ll individuals who purchased for consumption and not resale fountain Diet Coke in . . . Illinois from March 12, 1999, through the date of entry of an order certifying the class.” On behalf of this class, she complained that “Coke began advertising in 1984 that Diet Coke would be sweetened with 100% NutraSweet® brand aspartame, leading consumers to believe that all forms of Diet Coke would follow that formula, even though fountain Diet Coke continued to use saccharin.” She sought compensatory damages, disgorgement of Coke’s profits from the sale of fountain Diet Coke in Illinois, attorneys’ fees and costs, and any other relief the court saw fit to grant.

Oshana disclaimed individual damages over $75,000. Specifically, the complaint contained an express ad damnum stating that “[p]laintiff seeks no relief, cause of action, remedy, or damages that confer federal jurisdiction upon the claims asserted herein, and expressly disclaims individual damages in excess of $75,000.” Coke thought the disclaimer was “unclear.” Coke then requested that Oshana admit that in the event that the class was not certified, she

77 Id. at 510.
78 Id. at 510, 513.
79 See id.
80 Id. at 510.
81 Id. at 509.
82 Id.
83 Id.
84 An ad damnum is “[a] clause in a prayer for relief stating the amount of damages claimed.” BLACK’S LAW DICTIONARY 31 (7th ed. 2000).
85 Oshana, 472 F.3d at 511; Br. of Pet’r-Appellant at 6, 9, Oshana v. Coca-Cola Co., No. 05-3640 (7th Cir. 2005).
86 Oshana, 472 F.3d at 509.
would not personally seek relief greater than $75,000.\textsuperscript{87} Despite Oshana’s express disavowal of any relief that would confer federal jurisdiction, Coke removed the case to federal court claiming a good-faith belief that the amount in controversy exceeded $75,000.\textsuperscript{88} The district court denied Oshana’s motion to remand, concluding that Coke may have reasonably believed that Oshana’s damages could plausibly exceed $75,000.\textsuperscript{89} The district court denied class certification, holding that Oshana could not meet the requirements of Rule 23 of the Federal Rules of Civil Procedure.\textsuperscript{90}

The Seventh Circuit analyzed removal and certification separately.\textsuperscript{91} As a preliminary matter, the court indicated that Oshana’s case was not within the scope of CAFA because it had been filed before CAFA was enacted.\textsuperscript{92} Although the court admitted that disclaimers of damages have been a “long approved [] way of staying out of federal court,” it concluded that in Illinois, such disclaimers in complaints do not bind plaintiffs.\textsuperscript{93} As such, the court held that Oshana’s disclaimer had no legal effect.\textsuperscript{94} The court then stated that because Oshana refused to formally disclaim damages in the event that the class was not certified, Coke had a good-faith belief that the amount in controversy exceeded $75,000, notwithstanding Oshana’s express \textit{ad damnum} disclaimer.\textsuperscript{95}

With respect to certification, the Seventh Circuit agreed with the district court’s analysis, that Oshana failed to meet the requirements of Rule 23(a) and (b) of the Federal Rules of Civil Procedure.\textsuperscript{96} The district court determined that the proposed class was “not sufficiently

\textsuperscript{87} \textit{Id.}
\textsuperscript{88} \textit{Id.}
\textsuperscript{89} \textit{Id.}
\textsuperscript{90} \textit{Id.} at 510.
\textsuperscript{91} The court reviewed the propriety of removal de novo. \textit{Id.}
\textsuperscript{92} \textit{Id.} at 511.
\textsuperscript{93} \textit{Id.}
\textsuperscript{94} \textit{Id.}
\textsuperscript{95} \textit{Id.} at 512.
\textsuperscript{96} \textit{Id.} at 513. The court reviewed the district court’s analysis with an abuse of discretion standard of review. \textit{Id.}
definite to warrant a class certification.”97 Specifically, the district
court stated that the class could “potentially include millions of
customers,” some of which may not have been deceived by Coke’s
marketing, because “at least some of Coke’s ads contained a
disclaimer.”98 Accordingly, the district court held that part of the class
could not show any damage proximately caused by Coke’s alleged
deception, a requirement in a claim for damages under the ICFA.99 For
the same reasons, the district court held that Oshana’s claims were not
typical of the putative class.100 The court elaborated further, stating
that some of the proposed class members may have consumed Diet
Coke knowing that it contained saccharin, whereas Oshana had
claimed she was deceived.101 With respect to typicality,102 the Seventh
Circuit stated that Oshana’s claim was subject to certain specific
factual defenses, which undermined the typicality requirement.103

Finally, the Seventh Circuit held that Oshana failed to state a
claim for unjust enrichment on behalf of a class.104 The court
explained that Oshana needed to "show[] that Coke benefitted to her
detriment, and that Coke's retention of the profits would violate the
fundamental principles of justice, equity, and good conscience."105 The
Court further held that "in this case Coke cannot have been unjustly
enriched without proof of deception."106

97 Id.
98 Id. at 510.
99 Id. at 514.
100 Id.
101 Id.
102 “Typicality” is one of the requirements for class certification. FED. R. CIV.
P. 23 (a)(3). “One or more members of a class may sue or be sued as representative
parties on behalf of all only if . . . the claims or defenses of the representative parties
are typical of the claims or defenses of the class.” Id.
103 Oshana, 472 F.3d at 514.
104 Id. at 515.
105 Id. (citing HPI Healthcare Servs., Inc. v. Mt. Vernon Hosp., Inc., 545
N.E.2d 672, 679 (Ill. App. 1998)).
106 Oshana, 472 F.3d at 515.
IV. PROBLEMS WITH THE SEVENTH CIRCUIT’S HOLDING IN
Oshana v. Coca-Cola

The holding in Oshana v. Coca-Cola exemplifies the Seventh Circuit’s continued distrust of class action counsel, particularly those operating on the state level. In light of CAFA’s expansion of federal jurisdiction in class actions, federal courts must now be particularly careful in drawing distinctions between cases that qualify for federal jurisdiction, and those that do not. CAFA creates a necessary balance between injured plaintiffs and diverse defendants.107 Federal courts must acknowledge this change, and refrain from further expanding federal jurisdiction, upsetting the balance that Congress has struggled to achieve.108

Unfortunately, the Seventh Circuit fails in this regard. In its opinion in Oshana v. Coca-Cola, the court makes clear that, notwithstanding the federalizing power of CAFA, it will continue to affirm removals even when plaintiffs have disclaimed an amount in controversy exceeding the statutory minimum. Further, this case demonstrates that the Seventh Circuit is taking unusual measure to keep plaintiff classes from certifying. The Seventh Circuit’s holding in Oshana v. Coca-Cola affirms its hostility towards class actions, one that does not seem to be assuaged by the passage of CAFA. Ironically, it is this type of federal hostility towards class actions that has prompted many plaintiffs to seek redress in state courts in the first place.109

A. Removal

In Oshana v. Coca-Cola, the Seventh Circuit rejected an express disclaimer of damages stated within Oshana’s complaint.110 First, the court looked to the Supreme Court holding in St. Paul Mercury

109 Danas, supra note 24, at 1307.
110 Oshana, 472 F.3d at 511.
Indemnity Co. v. Red Cab Co. to establish a framework for its analysis of removal.111 The Seventh Circuit stated that “[o]nce the defendant . . . has established the requisite amount in controversy, the plaintiff can defeat jurisdiction only if ‘it appears to a legal certainty that the claim is really for less than the jurisdictional amount.’”112 The court’s interpretation of the Supreme Court’s holding was incorrect.

The Supreme Court in *Mercury* held that when a plaintiff claims an amount in controversy above the statutory minimum in order to bring the case in federal court, the defendant must prove “to a legal certainty that the claim is really for less than the [statutory minimum] to justify dismissal.”113 In dicta, the Court confirmed the natural corollary to the rule: if the plaintiff “does not desire to try his case in the federal court he may resort to the expedient of suing for less than the jurisdictional amount, and though he would be justly entitled to more, the defendant cannot remove.”114 The Court went no further, choosing not to expound on the burden of proof in such a case.115 Circuit courts, however, agree that it is the defendant’s burden to demonstrate that the amount in controversy exceeds the statutory minimum if the plaintiff claims otherwise.116 The Third and Ninth

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111 Id.
112 Id. (citing St. Paul Mercury Indem. Co. v. Red Cab Co., 303 U.S. 283, 289 (1938)).
113 *Mercury*, 303 U.S. at 289 (stating that it would need to be “apparent, to a legal certainty . . . from the proofs” that the plaintiff’s claim was for less than the statutory minimum) (emphasis added).
114 Id. at 294 (emphasis added).
115 Id.
116 *Oshana*, 472 F.3d at 511 (stating that “[b]ecause [the defendant] is the proponent of jurisdiction, it has the burden of showing by a preponderance of the evidence facts that suggest the amount-in-controversy requirement is met”); see also Williamson v. Aetna Life Ins. Co., 481 F.3d 369, 375 (6th Cir. 2007); In re Hot-Hed Inc., 477 F.3d 320, 323 (5th Cir. 2007); Morgan v. Gay, 471 F.3d 469, 474 (3d Cir. 2006); Kroske v. U.S. Bank Corp., 432 F.3d 976, 980 (9th Cir. 2005); Altimore v. Mount Mercy Coll., 420 F.3d 763, 768 (8th Cir. 2005); Friedman v. N.Y. Life Ins. Co., 410 F.3d 1350, 1353 (11th Cir. 2005); Dixon v. Coburg Dairy, Inc., 369 F.3d 811, 816 (4th Cir. 2004); Cal. Pub. Employees’ Ret. Sys. v. WorldCom, Inc., 368 F.3d 86, 100 (2d Cir. 2004); Martin v. Franklin Capital Corp., 251 F.3d 1284, 1290
Circuits have specifically held that when a plaintiff claims an amount in controversy less than the statutory minimum (to avoid federal court), the defendant must prove to a legal certainty that the amount in controversy is greater than the statutory minimum. Such a rule is in accord with the Supreme Court’s rule in Mercury. In Mercury, the defendant needed to prove to a legal certainty that the amount in controversy was less than the statutory minimum in order to avoid federal court. In the Third and Ninth Circuit cases, the defendant needed to prove to a legal certainty that the amount in controversy was greater than the statutory minimum in order to avoid state court.

The Seventh Circuit, however, completely modified the Supreme Court’s rule; this modification required the plaintiff, for the first time, to prove to a legal certainty that her claim was for less than the statutory minimum. Specifically, the court held that “[o]nce the defendant in a removal case has established the requisite amount in controversy, the plaintiff can defeat jurisdiction if ‘it appears to a legal certainty that the claim is really for less than the jurisdictional amount.’” Indeed, the court recognized that the defendant initially bore the burden of establishing that the amount in controversy exceeded the statutory minimum. However, it then took the legal certainty standard in Mercury and flipped it into a plaintiff’s burden.

(10th Cir. 2001); Danca v. Private Health Care Sys., Inc., 185 F.3d 1, 4 (1st Cir. 1999).

117 Lowdermilk v. U.S. Bank Nat’l Ass’n, 479 F.3d 994, 996 (9th Cir. 2007) (“[T]he party seeking removal must prove with ‘legal certainty’ that the amount in controversy is satisfied, notwithstanding the prayer for relief in the complaint”); Morgan v. Gay, 471 F.3d 469, 474 (3d Cir. 2006) (“The party wishing to establish subject matter jurisdiction has the burden to prove to a legal certainty that the amount in controversy exceeds the statutory threshold”).

118 Mercury, 303 U.S. at 289.

119 Lowdermilk, 479 F.3d at 996; Morgan, 471 F.3d at 474.

120 Oshana, 472, F.3d at 511.

121 Id. (citing Mercury, 303 U.S. at 289) (emphasis added).

122 To my knowledge, the Seventh Circuit is the only circuit court to have made such a drastic modification of the legal certainty standard. The Fifth Circuit has even stated that the “legal certainty” standard is “limited in utility to cases in which the plaintiff himself has placed the requisite jurisdictional amount in controversy by
In *Oshana v. Coca-Cola*, Oshana disclaimed damages exceeding the statutory minimum. The court found that her refusal to admit to Coke’s requests amounted in Coke meeting its burden of establishing that the amount in controversy exceeded the statutory minimum. The court then went back to the disclaimers and erroneously applied the legal certainty standard, questioning if the disclaimers proved to a legal certainty that Oshana’s claims for damages did not exceed the statutory minimum. The court then cleverly stated that disclaimers in Illinois “had no legal effect.” Thus, the Seventh Circuit’s modified rule forced Oshana’s disclaimers to hold up to an impossible legal certainty standard.

The court then carried on, explaining why disclaimers had no legal effect in Illinois. In its scant analysis, the court cited to two of its own cases: *BEM I L.L.C. v. Anthropologie, Inc.* and *The Barbers, Hairstyling for Men & Women, Inc. v. Lela Bishop*. The majority in *Barbers*, though discussing a similar issue, never ruled on the matter of disclaimers. In *Barbers*, the court held that a binding cap on damages prevents removal. The court remarked, however, that pleadings in Illinois are non-binding. When it posed the question of what “effect to give to non-binding pleadings” with respect to removal, the court stated that “this circuit has not yet come to rest,” and that “the standard is hazy.” The court ultimately held that such an issue need not be decided for that case. In *BEM I*, the plaintiff had filed a motion to increase its damages from $48,000 to $88,000 requesting damages in excess of the jurisdictional amount.” *De Aguilar v. Boeing Co.*, 47 F.3d 1404, 1409 (5th Cir. 1995) (emphasis added).

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123 *Oshana*, 472 F.3d at 511.
124 *Id.* at 512-13.
125 *Id.* at 511-12.
126 *Id.* at 511.
127 *Id.* at 511.
128 *Barbers, Hairstyling for Men & Women, Inc. v. Bishop*, 132 F.3d 1203, 1205 (7th Cir. 1997).
129 *Id.*
130 *Id.*
131 *Id.*
132 *Id.*
while the case was still in state court. When the plaintiff discovered that the defendant intended to remove the case, “it immediately withdrew the motion” before the state court judge acted on it, in order to prevent removal. The court stated that such conduct was “egregious,” because “even while withdrawing its motion for the additional [damages] it continued to claim that the additional [damages] was owed it.” Knowing this, the court stated that rescinding the enlarged claim for damages had “no effect on the actual stakes in the case.” Because the court knew from the plaintiff’s actions that more than $75,000 was at stake, the court affirmed the removal of the case. Indeed, BEM I exemplified that prayers of damages in Illinois are non-binding, especially when the plaintiff affirmatively claims additional damages. But, without any discussion or analysis of the effect of disclaimers, this case provided no insight into the Oshana’s case.

The court focused most of its efforts on analyzing Oshana’s disclaimers and whether they proved, to a legal certainty, that her claims were less than the statutory minimum. However, in applying its newfound rule, the court initially asked whether Coke had established that Oshana’s amount in controversy exceeded the statutory minimum. The court’s analysis was even sparser here than before. The court began by stating that “[b]ecause Coke is the proponent of jurisdiction, it has the burden of showing by a preponderance of the evidence facts that suggest the amount-in-controversy is met.” The court then held that Coke’s “inference,” that Oshana’s claim may be worth more than the statutory minimum, satisfied this burden. The court did not refer again to the

133 BEM I, L.L.C. v. Anthropologie, Inc., 301 F.3d 548, 551 (7th Cir. 2002).
134 Id.
135 Id. at 552.
136 Id.
137 Id. at 554.
138 See id.
139 Oshana v. Coca-Cola Co., 472 F.3d 506, 510-13 (7th Cir. 2006).
140 Id. at 512.
141 Id. at 511.
142 Id. at 512.
preponderance of the evidence standard. Instead, it focused on the effect of Oshana’s refusal to respond to certain of Coke’s requests for admissions.143 In an ad damnum to her complaint, Oshana expressly stated: “Plaintiff seeks no relief, cause of action, remedy or damages that would confer federal jurisdiction upon the claims asserted herein, and expressly disclaims individual damages in excess of $75,000.”144 Nevertheless, Coke requested that Oshana admit that in the event that the class was not certified, she would not personally seek relief amounting to more than $75,000.145 The court seemingly ignored Oshana’s reason for refusing to make such admissions to Coke.146 She stated that the defendant’s requests amounted to requests to reveal her future litigation strategy.147 Specifically, she stated:

Defendant’s state law requests for admission did not ask for admissions regarding the allegations of the Complaint, but asked for admissions regarding what Plaintiff’s future litigation strategy would be if class certification was denied. For example: ‘Admit that you will not seek to disgorge the profit Coca-Cola made from the conduct alleged in this lawsuit in the event that the class is not certified. . .’. (R.1, App. B-26).148

Oshana further explained that she believed such an admission called for privileged attorney work product.149 She then made the compelling

143 Id.
144 Id.
145 Id. Coke asked Oshana to admit in formal Requests for Admission that in the event the class was not certified, she would not personally seek “(1) disgorgement of Coke’s profits; (2) punitive damages in excess of $75,000; (3) attorneys’ fees in excess of $75,000; (4) an award of compensatory and punitive damages and attorneys’ fees in excess of $75,000; or (5) an award of disgorgement, punitive damages, and attorneys’ fees in excess of $75,000.” Id.
146 Br. of Pet’r -Appellant at 22, Oshana v. Coca-Cola Co., No. 05-3640 (7th Cir. 2005).
147 Id.
148 Id.
149 Id.
argument that if the defendant conferred with her counsel first, as was required by Illinois Supreme Court Rule 201(k), she would have been willing to resolve the issue, admitting only to the relief sought and not to any possible litigation strategy. Unfortunately, the court was silent on this issue. Oshana’s refusal to admit future litigation strategy, apparently gave Coke an “inference” that trumped Oshana’s express disclaimer that she would seek no relief that would confer federal jurisdiction. The court, thus, implied that a class action plaintiff’s failure admit to future litigation strategy (should certification be denied), would render a plaintiff’s express disclaimer not only devoid of “legal effect,” but completely meaningless.

Finally, the court stressed that Oshana’s disclaimer was silent on attorney’s fees and punitive damages, both of which could escalate the total amount in controversy over the statutory minimum. Conveniently, the court focused only on the second half of Oshana’s disclaimer, which limited personal damages to $75,000. The court completely ignored the most vital part of Oshana’s disclaimer, namely, that she “seeks no relief, cause of action, remedy or damages that would confer federal jurisdiction.” This was Oshana’s catch-all. No matter what combination of values the defendant calculated, by the plain language in the disclaimer, the total value was not to exceed the statutory minimum. The court summarily dismissed Oshana’s disclaimer of relief sought, ignoring the plain language of her complaint. Even if Oshana’s disclaimer of specific damages had no

150 Id.
151 See Oshana, 472 F.3d 506.
152 The court in Oshana v. Coca-Cola never attempted to explain why Oshana would have to limit her relief in possible future litigation. See Oshana, 472 F.3d 506. Indeed, if Oshana’s class certification had been denied and her case dismissed without prejudice, she may well have filed a new individual complaint against Coke seeking a new set of damages.
153 Id. at 511-12.
154 Id. at 511.
155 Id. at 511-13.
156 Id. at 511.
157 Id.
158 Id. at 511-13.
legal effect or consequence, the plain language of her complaint stated that she sought no action that would confer federal jurisdiction in any way.\footnote{Id. at 511.} The court’s refusal to give credence to her disclaimer is a clear indication that it ruled with an eye towards a particular finding, that removal in Oshana’s case was proper.

The court’s actions reveal its known distrust of class action counsel. The court continues to fear that plaintiffs may game the system by disclaiming relief sought, then amend their complaint to seek greater relief once the defendant’s opportunity to remove has passed.\footnote{Id. at 512-13.} Indeed, the gaming of the class action system is a valid concern, but protections do exist against such “antics”\footnote{Hahn v. PepsiCo, Inc., 350 F. Supp. 2d 758, 765 (N.D. Ill. 2004).} for example, the recent enactment of CAFA.\footnote{28 U.S.C. § 1332(d)(2), as amended by the Class Action Fairness Act of 2005, Pub. L. 109-2, 119 Stat. 4 (2005).} Aggregate claims for damages can now automatically trigger federal jurisdiction.\footnote{Id.} Further, courts can prevent such antics by exercising varying degrees of judicial control.\footnote{PepsiCo, 350 F. Supp. 2d 758.} A case from the Northern District of Illinois recently discussed such preventative measures in \textit{Hahn v. PepsiCo, Inc.}\footnote{Id.} In a case virtually identical to \textit{Oshana v. Coca-Cola}, the court acknowledged the concerns discussed by the Seventh Circuit, concerns that defendants to class actions undoubtedly share.\footnote{Id. at 764.} The plaintiffs in this case had a near identical disclaimer as that found in \textit{Oshana v. Coca-Cola}. \textit{Id.} at 761. The defendant in \textit{PepsiCo} also requested that the plaintiffs admit that they would not seek various damages in excess of $75,000 in the event that a class was not certified. \textit{Id.} When the plaintiffs refused to do so, the defendant removed the suit to federal court on the basis of diversity jurisdiction. \textit{Id.}
leave to amend rests with the Illinois courts.\footnote{168} The court expounded upon the considerations a state court may make in granting leave to amend:

(1) Whether the proposed amendment would cure the defective pleading; (2) whether other parties would sustain prejudice or surprise by virtue of the proposed amendment; (3) whether the proposed amendment is timely; and (4) whether previous opportunities to amend the pleading could be identified. The court's primary consideration is whether allowing the amendment would further the ends of justice.\footnote{169}

The court was confident that state courts are prepared to prevent unacceptable gaming by plaintiffs attempting to avoid federal jurisdiction.\footnote{170} As such, it granted the plaintiff’s motion to remand.\footnote{171}

CAFA also quashes many concerns shared by the Seventh Circuit and defendants to class actions.\footnote{172} In class actions where the aggregate amount in controversy is over $5,000,000, disclaimers relating to the statutory minimum of $75,000 are indeed meaningless.\footnote{173} Nevertheless, the Seventh Circuit should not invalidate disclaimers of damages and force class action plaintiffs to legally bind their future litigation strategy as it did in \textit{Oshana v. Coca-Cola}; circumstances still do exist where disclaimers of damages in class actions are relevant. Take for example a class action with a proposed class membership of less than one hundred; CAFA does not apply to such a class.\footnote{174} Plaintiffs should have the flexibility to disclaim damages exceeding $75,000 without having to legally bind themselves to future litigation

\footnotetext[168]{Id.}
\footnotetext[169]{Id. at 765 (quoting Hayes Mech., Inc. v. First Indus., L.P., 351 Ill. App. 3d 1, 7 (2004)).}
\footnotetext[170]{\textit{PepsiCo}, 350 F. Supp. 2d 765.}
\footnotetext[171]{Id.}
\footnotetext[173]{Id. at § 1332(d)(2).}
\footnotetext[174]{Id. at § 1332(d)(5)(B).}
strategy should their proposed class not be certified. Likewise, disclaimers are also useful in cases where CAFA does apply. Class action plaintiffs have already begun disclaiming aggregate damages exceeding the $5,000,000 statutory minimum set forth in CAFA.\textsuperscript{175}

\textbf{B. Certification}

The Seventh Circuit also affirmed the lower court’s decision not to certify a class in \textit{Oshana v. Coca-Cola}.\textsuperscript{176} In order to certify a class of plaintiffs, the putative class must satisfy all four requirements of Federal Rules of Civil Procedure 23(a)—numerosity, commonality, typicality, and adequacy of representation—and any one of the conditions of Rule 23(b).\textsuperscript{177} The Seventh Circuit, however, has added an additional component to the rule, requiring that the class be “identifiable.”\textsuperscript{178} In \textit{Oshana v. Coca-Cola}, the court explained that “[t]he plaintiff must also show [citation omitted] that the class is indeed identifiable as a class.” It remarked that the class must “exist” for the purposes of a class action.\textsuperscript{179} Requiring, from the outset, that the Oshana meet this “identifiable” class requirement added an inappropriate burden on Oshana.\textsuperscript{180} And the manner in which the court applied the rule made it nearly impossible for Oshana to certify her class.

The court elaborated on its requirement, stating that a class is “identifiable” if it is not overly difficult to ascertain which individuals

\textsuperscript{175} See Lowdermilk v. U.S. Bank Nat’l Ass’n, 479 F.3d 994 (9th Cir. 2007); Morgan v. Gay, 471 F.3d 469 (3d Cir. 2006).

\textsuperscript{176} \textit{Oshana v. Coca-Cola Co}, 472 F.3d 506, 513 (7th Cir. 2006).

\textsuperscript{177} \textit{Fed. R. Civ. P. 23; Oshana, 472 F.3d at 513.}

\textsuperscript{178} \textit{Oshana, 472 F.3d at 513 (citing Simer v. Rios, 661 F.2d 655, 669 (7th Cir. 1981)).}

\textsuperscript{179} Oshana, 472 F.3d at 513 (quoting Simer, 661 F.2d at 669).

\textsuperscript{180} See \textit{Conte & Newberg, supra note 19, at § 2.3: [A] rule for the existence of a class at the outset of litigation reveals that [courts] are actually concerned about ambiguous pleadings . . . and difficulties with identifying individual members of the class . . . . It is now settled law that amorphous, vague, and indeterminate classes are implicitly authorized under new Rule 23.
belong in the class.\textsuperscript{181} In other words, the court took on the additional task of gauging the difficulty of identifying common and typical class members.\textsuperscript{182} Using its concept of “identifiable” classes, the court constructed yet another standard: if a class is not sufficiently definite, certification will not be granted.\textsuperscript{183} The court then applied the facts of the case to the new standard.\textsuperscript{184} The court explained that for a damages claim under the ICFA, the plaintiff must show that she was deceived in some manner and damaged by the deception.\textsuperscript{185} It went on to state that because Oshana’s proposed class included some consumers that were aware of the ingredients in Diet Coke, that those individuals would not be able to show any damage from any of Coke’s actions.\textsuperscript{186} In other words, the court held that the proposed class was over-inclusive. But the court cited to no authority that required a formula for gauging over-inclusivity.\textsuperscript{187} Indeed, asserting a proposed class that is overly broad could be counter-productive to the class action.\textsuperscript{188} But, class actions were created to benefit the individual plaintiff that had no other form of redress. For a court to require that a plaintiff propose a class exceedingly narrow would create the obvious risk of closing out those that were indeed harmed. It seems to go against the very idea of class actions for a court to deny certification and perhaps deny redress to numerous plaintiffs because a handful of plaintiffs in a proposed a class \textit{might} include individuals that were not actually harmed. In some cases, courts are even willing to help re-define the class\textsuperscript{189} at least in an attempt to help plaintiffs gain redress.\textsuperscript{190}

\textsuperscript{181} \textit{Oshana}, 472 F.3d at 513-14.
\textsuperscript{182} \textit{Id}.
\textsuperscript{183} \textit{Id}. at 513.
\textsuperscript{184} \textit{Id}. at 514.
\textsuperscript{185} \textit{Id}.
\textsuperscript{186} \textit{Id}.
\textsuperscript{187} \textit{Id}.
In *Oshana v. Coca-Cola*, it was imperative that Oshana cast a broad net to capture as many potential plaintiffs as she could in her proposed class. The court incorrectly burdened Oshana, essentially demanding that she produce a means of then discovering which of the potential millions of plaintiffs were aware of the ingredients in Diet Coke.\(^1\) Such a determination could have been made at the individual notice requirement stage.\(^2\) If Oshana, after reasonable efforts, was not able to identify all members of the proposed class, she could have used any number of methods to properly identify her proposed class, such as, but not limited to newspaper publications, television broadcasts, or even radio broadcasts.\(^3\) “Publication in newspapers or journals may be advisable as a supplement; it is necessary if class members are not identifiable after reasonable effort.”\(^4\) Publication is utilized widely in mass tort and product liability class suits “in an effort to inform more potential class members, and principally to notify and inform affected persons.”\(^5\) Denying class certification from the outset because it is not identifiable is not part of the federal rules, and should not be imposed upon class action plaintiffs. The Seventh Circuit’s choice to do so is yet another example of its express disdain and distrust of the class action system.

**CONCLUSION**

Prior to CAFA, plaintiff classes and their counsel had what some called the power to “game” the system.\(^6\) CAFA was specifically drafted to address these types of concerns, namely, the concerns that plaintiffs could disclaim individual damages, no matter how large the

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190 See Conte & Newberg, supra note 19, at § 2.3. “[T]he court has full power under Rule 23 to resolve the ambiguity by redefining the class or affording the representative plaintiff an opportunity to do so.” *Id.*

191 Oshana, 472 F.3d at 514.

192 Fed. R. Civ. P. 23(c).

193 See Conte & Newberg, supra note 19, at § 8.3.


195 See Conte & Newberg, supra note 19, at § 8.3.

aggregate amount was, in order to stay out of federal court.\textsuperscript{197} Under CAFA, plaintiff classes are now severely restricted in their ability to keep cases in state courts.\textsuperscript{198} If plaintiffs are to maintain the power and flexibility to move as a class, the Seventh Circuit must allow class action plaintiffs to disclaim their damages in order to stay out of federal court. Furthermore, the Seventh Circuit must acknowledge the balancing effect of CAFA, and refrain from overly burdening plaintiffs when moving to certify their class.

\textsuperscript{197} \textit{Id.}

I ACCEPT THE TERMS IN THIS AGREEMENT: MARKET EFFICIENCY IN CLICKWRAP AGREEMENTS AND OPEN SOURCE SOFTWARE

PATRICK J. MONDI *


INTRODUCTION

It is pretty ubiquitous now, really. You have just come home from Circuit City, and you are excited about your new computer purchase. You rip open the box and see a piece of paper that indicates your warranty information. Skimming the terms and conditions over, you plug in the computer and turn it on. Hill v. Gateway 20001 upheld, in principle, the use of the “in-the-box” warranty and terms.

Fortunately, the warranty terms will not need to be invoked, at least for now: your computer has booted up properly. You proceed to load Windows XP, the standard operating system that came with your new purchase. Not content to use outdated software, you also purchase Windows Vista, the newest entry to the hacker-targeted family of Microsoft Windows operating systems.2 You anxiously tear open the

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* J.D. candidate, May 2007, Chicago-Kent College of Law, Illinois Institute of Technology; B.S., May 2001, Purdue University. Thank you to my incredible family, amazing future wife Jennifer, and wonderful friends for all of their support during law school.

1 105 F.3d 1147 (7th Cir. 1997) (discussed in detail infra).

box and drop in the CD (or, to be precise, DVD). You read the End-User License Agreement, included in small print on flimsy paper with the software. As the install process starts, you are prompted to agree with Microsoft’s End User License Agreement, this time presented to you in a display on the screen. ProCD v. Zeidenberg upheld a similar licensing arrangement.

After your purchase of Windows Vista, your wallet is feeling a little light. So, instead of purchasing Microsoft Office Professional 2007 for the retail price of $437.99, you opt for the open source alternative, OpenOffice 2.1. You launch Internet Explorer (vowing to download Firefox at your earliest free moment) and access the

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4 “An end user license agreement (EULA) is a legal contract between a software developer or vendor and the user of the software. It specifies in detail the rights and restrictions that apply to the software.” EULA Definition by the Linux Information Project, http://www.bellevuelinux.org/eula.html (Feb. 28, 2006).

5 End User License Agreement (EULA) terms for Microsoft products can be found online. Microsoft, Retail Software License Terms, http://www.microsoft.com/about/legal/useterms/default.aspx (last visited Apr. 18, 2007).

6 ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996) (the court upheld the use of a software license agreement that contained terms of use but were only disclosed after opening the software packaging and reviewing the agreement, discussed in detail infra).


8 Open source software is software that is developed by communities of programmers, typically working for no pay. A further, detailed discussion is included infra.

9 OpenOffice 2.1 is an alternative to Microsoft Office and contains software that is functionally comparable to many Microsoft Office applications. Additionally, it supports file compatibility with Microsoft Office file formats. See OpenOffice.org, http://www.openoffice.org/ (last visited Apr. 18, 2007).

10 Firefox is an open-source web browser that competes with Microsoft’s Internet Explorer, performing similar functionality. See Mozilla, Firefox Homepage, http://www.mozilla.com/en-US/firefox/ (last visited Apr. 18, 2007).
OpenOffice.org website. You download the software and launch the install program. Before you can continue, you are prompted to agree to the OpenOffice license, a close derivative of the General Public License (“GPL”), the license that governs many open source creations.\textsuperscript{11} You agree to the license and are able to install OpenOffice. \textit{Wallace v. IBM} upheld some aspects of the GPL.\textsuperscript{12}

These seemingly routine activities have something in common: Judge Easterbrook. No, the good jurist does not engineer computers, program for Microsoft, or commune with anti-establishment open source programmers in Palo Alto, California. Rather, his forward-thinking decisions in \textit{ProCD}, \textit{Hill}, and \textit{Wallace} paved the way for this series of actions to occur so seamlessly. Through these three decisions, applying sound reasoning based on minimizing transaction costs, Judge Easterbrook has progressively enabled technology innovation to continue in the Seventh Circuit.

Indeed, were it not for \textit{ProCD},\textsuperscript{13} \textit{Hill},\textsuperscript{14} and \textit{Wallace},\textsuperscript{15} this entire series of events may have been infinitely more complicated. \textit{ProCD}, bolstered by \textit{Hill}, helped shape the national judicial landscape, and other courts have adopted their reasoning. It is likely that \textit{Wallace} will similarly influence the judiciary, as it comes during a crucial crossroads for open source software.

Spanning these decisions are themes of “law and economics.” This Note argues that by applying law and economics reasoning to software licensing issues, the result is a positive outcome for consumers in the promotion of software innovation. Part I of this Note examines \textit{ProCD} and \textit{Hill} as a foundation for the recent \textit{Wallace}

\footnotesize{\textsuperscript{11} The GPL grants the recipients of a computer program broad rights to redistribute and modify the software. In return, the user must share changes and improvements made to the software with others, even when the work is changed or added to. \textit{See generally} Charles Babcock, \textit{What Will Drive Open Source?}, INFO. \textit{WEEK}, Mar. 19, 2007 at 36.

\textsuperscript{12} (“\textit{Wallace II}”), 467 F.3d 1104 (7th Cir. 2006) (upholding the GPL under an antitrust challenge, discussed in detail \textit{infra}).

\textsuperscript{13} ProCD Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996).

\textsuperscript{14} Hill v. Gateway 2000, 105 F.3d 1147, 1148 (7th Cir. 1997).

\textsuperscript{15} \textit{Wallace II}, 467 F.3d 1104.}
decision. Part II examines open source software and the relationship between ProCD and Wallace. Finally, Part III discusses the application of law and economics to ProCD, Hill, and Wallace, and concludes that the application of law and economics has promulgated software innovation. The Note calls for courts to apply this law and economics reasoning to future software licensing issues.

I. SOFTWARE, HARDWARE AND LICENSING

A. ProCD affirms the shrinkwrap license model.

In 1996, the Seventh Circuit upheld a shrinkwrap license agreement in the widely-cited case ProCD, Inc. v. Zeidenberg. A shrinkwrap license was (and remains) a popular means of software licensing. It is a “license agreement or other terms and conditions of a (putatively) contractual nature which can only be read and accepted by the consumer after opening the product.” The term is derived from “the shrinkwrap plastic wrapping used to coat software boxes.”

In 1996, it was far from clear whether shrinkwrap license agreements would bind the user. However, ProCD provided needed clarity in the Seventh Circuit, holding that “[s]hrinkwrap licenses are

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16 See Kathleen K. Olson, Preserving the Copyright Balance: Statutory and Constitutional Preemption of Contract-Based Claims, 11 COMM. L. & POL’Y 83, 111 (2006) (ProCD is the “template” courts have used for deciding preemption issues involving contracts regarding software).

17 ProCD, 86 F.3d 1447.


20 Id.

21 Morris, supra note 18, at 243.
enforceable unless their terms are objectionable on grounds applicable to contracts in general.”

In ProCD, the issue was the enforceability of a software license where the terms were not disclosed to the purchaser until after opening the software packaging. The software package compiled more than 3,000 phone directories into a single database. Included with the software was a shrinkwrap license agreement. The license agreement restricted the end user to using the software for non-commercial purposes. If the user rejected the terms of the license, he or she could return the software for a full refund. The defendant had purchased the non-commercial version of the software, but taken the underlying phone directory information and resold it for a fee: commercial use, in violation of terms of the license agreement.

Judge Easterbrook’s now landmark decision noted that a shrinkwrap license should be treated as an ordinary contract accompanying the sale of products. Further, the court noted there are numerous contracts in everyday life where the “exchange of money precedes the communication of detailed terms.” Examples include the purchase of insurance (e.g., buyer pays agent, receives coverage immediately, and later receives the terms from the insurance company), ticket to a sporting event or concert (e.g., patron agrees not to record the concert; attendance is agreement), and consumer goods

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22 ProCD, 86 F.3d at 1449.
23 Id. at 1450.
24 Id. at 1449.
25 Id. at 1450.
26 Id.
27 Id. at 1451.
28 Id. at 1450.
29 Morris, supra note 18, at 243 (“Since the ProCD case, courts have generally held that shrinkwrap licenses are generally enforceable.”) (citations omitted).
30 ProCD, 86 F.3d at 1449-50.
31 Id. at 1451.
(e.g., purchaser brings home television and later reads details of the warranty after opening the television at home).32

Judge Easterbrook also noted in dicta that the makers of ProCD discriminated between categories of purchasers (e.g., commercial and non-commercial).33 Accordingly, the ProCD license was aimed at a legitimate goal: price discrimination resulted in a more efficient market.34 In essence, a commercial user placed a higher value on the software and the underlying information because of the business opportunities the compiled phone directory could help create.35 In contrast, the consumer segment of the market does not place as high a value on the compiled phone directory, using it for convenience or to contact long lost friends.36 However, for this discrimination to work, “the seller must be able to control arbitrage.”37 Using “the institution of contract,” the ProCD license efficiently controls arbitrage and, ultimately, creates a more efficient market.38

In the end, the court held that the shrinkwrap license, like other types of transactions where the terms are revealed after the exchange, comply with contract law.39 According to the UCC: “A contract for [the] sale of goods may be made in any manner sufficient to show agreement, including conduct by both parties which recognizes the existence of such a contract.”40 Of course, the court noted that a license is only enforceable if its terms are not facially objectionable under general contract principles.41

Judge Easterbrook showed foresight when he noted that software could be purchased online, with the software (and corresponding

32 Id. at 1451-52.  
33 Id. at 1449-50.  
34 Id. at 1450.  
35 Id. at 1449.  
36 Id.  
37 Id. at 1450.  
38 Id.  
39 Id. at 1455.  
40 Id. at 1452-53 (citing UCC § 2-204(1)).  
41 ProCD, 86 F.3d at 1449.
license terms) arriving later. The court detailed the terms of a transaction involving downloaded software, whereby software is received online without any physical media. This foreshadowed the now-common technique of downloading open-source (or commercial) software, agreeing to a “clickwrap” license, and installing the software.

A clickwrap license is a close cousin of a shrinkwrap license. It is similar to a shrinkwrap license in that the user only receives the license after downloading or buying the software. The license is presented during installation on the computer screen. The license must be read and agreed to as part of the installation process.

Following ProCD, numerous courts adopted similar reasoning and also held that the terms of a shrinkwrap or clickwrap license bind the user. Indeed, ProCD stands as the “template” by which other courts patterned their analysis on. ProCD opened the floodgate: while in 1996 it may have been far from clear whether shrinkwrap agreements would be enforced, most jurisdictions will now enforce shrinkwrap and clickwrap agreements (provided the terms are not unconscionable).

42 Id. at 1452.
43 Id. at 1452.
45 Id. at 22 n.4.
46 Id.
47 Condon, supra note 19, at 435.
49 Olson, supra note 16, at 111; see also Bowers, 320 F.3d at 1325 (Court of Appeals for the Federal Circuit, in applying First Circuit law, notes that “[t]his court believes that the First Circuit would follow the reasoning of ProCD and the majority of other courts to consider this issue”).

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In *Hill v. Gateway 2000, Inc., et al.*, Judge Easterbrook authored an opinion that nicely supplements *ProCD*. Addressing an arbitration clause that was included as an in-the-box terms and conditions leaflet for a computer purchase, the court upheld the arbitration clause as binding. As a result, the court extended the principle of the shrinkwrap license to computer hardware.

The facts were simple. The plaintiff ordered their Gateway 2000 computer system over the phone. Upon receiving the computer, the plaintiff skimmed the enclosed list of terms. The terms were alleged to govern unless the customer returned the computer within 30 days of receipt. Included in the list of terms was an arbitration clause, requiring the use of an arbitrator in the case of a dispute.

After keeping the computer for “more than 30 days,” the plaintiff complained about “its components and performance.” Retaining Edelman & Combs, the plaintiff made some bold allegations: notably, that the “product’s shortcomings [made] Gateway a racketeer.” If demonstrated, this could have led to treble damages.

50 Hill v. Gateway 2000, 105 F.3d 1147 (7th Cir. 1997). Interestingly, *Hill* was argued before the court just shy of seven months after *ProCD*.

51 *Id.* at 1148.

52 *Id.* at 1151.

53 *Id.* at 1150.

54 *Id.* at 1148.

55 *Id.* (“they concede noticing the statement of terms but deny reading it closely enough”).

56 *Id.*

57 *Id.*

58 *Id.*


60 *Hill*, 105 F.3d at 1148.

61 Damages that, by statute, are three times the amount that the fact-finder determines is owed. *BLACK’S LAW DICTIONARY* (8th ed. 2004).
under RICO\(^\text{62}\) for the plaintiffs.\(^\text{63}\) Gateway sought to enforce the arbitration clause.\(^\text{64}\) The central issue, thusly, was whether the arbitration clause on the in-the-box warranty was enforceable.\(^\text{65}\)

Citing, \textit{inter alia},\(^\text{66}\) \textit{ProCD}, the court held that \textit{ProCD} should not be limited to software: it is “about the law of contract, not the law of software.”\(^\text{67}\) Moreover, “[p]ractical considerations support allowing vendors to enclose the full legal terms with their products.”\(^\text{68}\) If vendors did not have the ability to enclose the terms within the packaging of their products, Judge Easterbrook noted the practical inefficiency of having a cashier read the terms of a contract to a purchaser of a computer.\(^\text{69}\)

Judge Easterbrook and the court declined to limit the \textit{ProCD} holding to executory contracts\(^\text{70}\) as well, taking note that in both the \textit{ProCD} license and the Gateway 2000 warranty, there remained promises of future performance.\(^\text{71}\)

Further, Judge Easterbrook dismissed the plaintiff’s argument that \textit{ProCD} does not apply because it involved two merchants; noting that

\footnotesize
\begin{itemize}
  \item\(^\text{63}\) \textit{Hill}, 105 F.3d at 1148.
  \item\(^\text{64}\) \textit{Id.}
  \item\(^\text{65}\) \textit{Id.}
  \item\(^\text{66}\) Carnival Cruise Lines, Inc. v. Shute, 499 U.S. 585 (1991) (Supreme Court enforces forum-selection clause included among cruise-ship ticket terms).
  \item\(^\text{67}\) \textit{Hill}, 105 F.3d at 1149.
  \item\(^\text{68}\) \textit{Id.}
  \item\(^\text{69}\) \textit{Id.}
  \item\(^\text{70}\) A contract that remains wholly unperformed or for which there remains something still to be done on both sides, often as a component of a larger transaction and sometimes memorialized by an informal letter agreement, by a memorandum, or by oral agreement. \textit{BLACK’S LAW DICTIONARY} (8th ed. 2004).
  \item\(^\text{71}\) \textit{Hill}, 105 F.3d at 1149-50 (“What is more, both ProCD and Gateway promised to help customers to use their products . . . . Some vendors spend more money helping customers use their products than on developing and manufacturing them. The document in Gateway’s box includes promises of future performance that some consumers value highly; these promises bind Gateway just as the arbitration clause binds the Hills”).
\end{itemize}

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a UCC “battle of the forms” argument was inappropriate because only one form was at issue (the Gateway 2000 warranty). Ultimately, the arbitration clause was upheld.

II. CLICKWRAP, OPEN SOURCE AND THE GPL

A. ProCD and Open Source

ProCD enabled the spread of the clickwrap license as a valid licensing methodology. As discussed supra, a clickwrap license is similar to a shrinkwrap license. In fact, a clickwrap license could be considered an electronic shrinkwrap license. Clickwrap licensing is the primary means by which freeware, shareware, and open source software are distributed; not to mention commercial software licenses

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72 Id. at 1150.
73 Id. at 1151.
74 See 86 F.3d 1447 (7th Cir. 1996).
75 See supra nn.29-31.
76 See generally Tennille M. Christensen, The GNU General Public License: Constitutional Subversion?, 33 HASTINGS CONST. L.Q. 397, 419 (2007) (using shrinkwrap and clickwrap almost interchangeably, distinguished by the method of acceptance of a clickwrap agreement).
78 For a good discussion of shareware, see Storm Impact, Inc. v. Software of the Month Club, 13 F. Supp. 2d 782, 785 (N.D. Ill. 1998) (“There are two common forms of shareware. With the first, the owner of the software makes the complete software available to users without charge for the purpose of evaluation. If users wish to keep the software after a trial basis, they must forward a registration fee to the owner. Shareware programs distributed in this manner rely to a large extent on the honesty of the users. The second form of shareware contains the computer equivalent of a lock on part of the program. The “lock” is a feature built into the software program which disables portions of the program. The user can sample the unlocked portion at no charge, and, if the user likes what he sees, he can buy the “key” in the form of a floppy disk and registration number which enables the user to use the whole program”).
and website usage licenses. It is not a stretch to say that each of these software distribution models, particularly open source, would not be nearly as viable without the licensing flexibility and efficiency that clickwrap licensing affords the copyright holder.

While programmers have cooperated on open source-like software projects since the 1950s, the term “open source” originated in early 1998. Open source software, as it is known today, stems from Netscape’s 1998 decision to release the source code for its browser “Netscape Navigator.” The formal open source initiative stemmed from a collective effort to develop a flexible licensing arrangement that encouraged innovation while maintaining the principles of open source, specifically community cooperation towards a common goal.

It is challenging to pin down the motivations for individuals and organizations to contribute to open source projects. At the risk of oversimplifying, the philosophy of open source code is that teams can write better software than individuals, and the best software comes from the efforts of entire communities of the world’s programmers. Hence, open source programmers “openly” share the code for software

79 Indeed, almost all software and website licenses are some type of a clickwrap license.
80 See generally Lydia Pallas Loren, Slaying the Leather-Winged Demons in the Night: Reforming Copyright Owner Contracting with Clickwrap Misuse, 30 OHIO N.U. L. REV. 495 (2004) (the author laments the ubiquity of clickwrap licenses and the imbalance between the copyright holder, arguing that the imbalance leads to copyright holders pursuing terms that “may not be socially beneficial”).
84 Id. at 187-88 (citations omitted) (noting that “scholars have offered various theories about why individual programmers choose to volunteer their time to open source projects, as well as why some open source projects have been embraced by for-profit commercial enterprises”).
they write and, depending on the license, may freely allow anyone to produce derivative works.85

Open source software has exploded over the past decade.86 At its core, open source software is software that is typically provided free-of-charge to users.87 Businesses and government agencies, while initially slow to adopt open-source applications into their environments,88 now use Apache89 to run their web servers, MySQL90 to power their databases, PERL91 and JAVA92 to program applications, and Open Office93 for employee computers.

One strong example that illustrates the open source development process is Firefox, an Internet browser.94 Compare Firefox to

85 Id. at 190.
86 See generally id. at 184-86.
87 Id. at 196 n.273 (citing the Open Source Definition’s preference for not charging for open source software).
89 See, e.g., Philip J. Weiser, The Internet, Innovation, And Intellectual Property Policy, 103 COLUM. L. REV. 534, 613 (2006) (citing http://httpd.apache.org/) (Apache operates a popular web server, which is a server that hosts a website – or multiple websites – for Internet use. When a user uses a browser to go to an Internet site, he or she is accessing a web server).
90 Stein, supra note 82, at 186 (noting MySQL as a leading open source effort. MySQL is a back-end database program. A database stores data and information in a tabular format. MySQL competes with industrial commercial database programs such as Oracle and Microsoft’s SQL Server).
91 Id. PERL is a programming language for developing interactive webpages.
92 JAVA is a programming language used for numerous applications. The scope of uses spans a broad spectrum, such as website interactivity, business applications, database connectivity, and games. See Sun Opens Java, http://www.sun.com/2006-1113/feature/ (Nov. 13, 2006).
93 OpenOffice is a suite of tools that contains, inter alia, a word processor, presentation software, and spreadsheet. It competes with Microsoft Office and shares file compatibility. See OpenOffice.org, http://www.openoffice.org (last visited Apr. 18, 2007).
Microsoft Internet Explorer ("IE"). Microsoft writes all of the code for IE and does not release it to the public. This allows Microsoft to maintain complete control over the program. Users cannot tweak the program or alter it without violating the license, and possibly breaking the law. Firefox, on the other hand, allows users and unaffiliated programmers to see and modify the source code. Therefore, improvements to the program are not only identified by users, but are also implemented by users. The process by which Microsoft and commercial software is developed was famously compared to a cathedral (orderly, structured, and hierarchical). In contrast, the open source process was compared to a bazaar (disorderly, non-structured, and cacophonous).

95 See Stein, supra note 82, at 160. As a general rule, Microsoft does not release the source code to most of its applications. However, some applications can be licensed under the Microsoft Shared Source Initiative, such as some Windows code for “internal development and support” and the entire Windows CE source code, used primarily for handheld computers. See Microsoft, Shared Source Initiative, http://www.microsoft.com/resources/sharedsource/licensing/windows.mspx (last visited Apr. 30, 2007).

96 See Stein, supra note 82, at 160.

97 Fair use notwithstanding. Microsoft, Windows XP End User License Agreement, http://www.microsoft.com/windowsxp/home/eula.mspx (June 1, 2004) (“You may not reverse engineer, decompile, or disassemble the Software, except and only to the extent that such activity is expressly permitted by applicable law notwithstanding this limitation”). Moreover, the Digital Millennium Copyright Act (DMCA) provides criminal penalties for some instances of reverse engineering. 17 U.S.C. § 1201 (2006).


100 Id.
Not only is open source software successfully implemented in many environments, it is growing in popularity. Indeed, Firefox now controls 12% of the browser market, and Apache approximately 60% of the web-server market. Large corporations are experimenting with Open Office as a replacement to the standard-issue Microsoft Office suite. And home users are finding GIMP, a popular graphics manipulation tool, to be a worthy alternative to the expensive Adobe Photoshop.

In addition to being worthy alternatives to commercial software, open source software’s meteoric rise is also due to its innovative licensing model—a model that enables free use of the software and the accompanying source code, for the trade-off of the user having to share with the development community his or her improvements to the software. The GPL, promulgated by the Free Software Foundation, is one of the most popular open source licenses. The license is designed to promote innovation by giving users the application and the underlying source code, in exchange for the users agreeing to share whatever changes are made with the open-source community. Essentially, there is monetary cost for the software.

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105 Christensen, supra note 75, at 400-01.

106 Id.

107 Id.
This licensing model, however, is not without controversy. Linux, in particular, has benefited from the open source boom, and has emerged as a versatile operating system capable of powering everything from smartphones to multi-rack servers.\(^{108}\) Recently, some have challenged the Linux licensing model.\(^{109}\) Most notably, in Utah, the Santa Cruz Operation (“SCO”) has challenged IBM (and others’) distribution of Linux.\(^{110}\) SCO claimed that it owns the copyright to Unix through a complicated licensing agreement with Novell.\(^{111}\) SCO further alleged that portions of Unix code are in Linux, which is licensed by the GPL.\(^{112}\) This litigation is ongoing, and it is a direct threat to open source and Linux.\(^{113}\) As a sidenote, SCO has struggled to support its allegations and cite portions of code that infringe, despite numerous court orders to do so.\(^{114}\)

One charge that was leveled at open source during the SCO proceedings was that it violated antitrust laws.\(^{115}\) Specifically, in an affirmative defense, SCO alleged that “[t]he GPL violates the U.S. Constitution, together with copyright, antitrust and export control laws.”\(^{116}\) Three years later, and hundreds of miles away in an
unrelated proceeding, the Seventh Circuit illuminated the likely answer to SCO's charge.

B. Wallace v. IBM: *The GPL and Antitrust*

Recently, the Seventh Circuit took the opportunity to address whether the GPL violates antitrust laws.117 Judge Easterbrook, writing for the court, emphatically concluded that the charge was baseless and that “[t]he GPL and open-source software have nothing to fear from the antitrust laws.”118

The pro-se119 plaintiff, Daniel Wallace, struggled in the district court to state a coherent claim.120 The district court judge noted: “Wallace has had two chances to amend his complaint, after Defendants highlighted [deficiencies]. His continuing failure to state an antitrust claim indicates that the complaint has ‘inherent internal flaws.’”121 The district court dismissed Wallace’s claims on IBM’s motion for summary judgment, holding that “Wallace [had] failed to allege a cognizable antitrust injury.”122

On appeal, Judge Easterbrook, writing for the Seventh Circuit Court of Appeals, took the opportunity to examine the GPL in detail.123 Wallace apparently wanted to build an operating system, such as Microsoft Windows or Linux.124 Wallace further alleged “that IBM, Red Hat, and Novell have conspired among themselves and with others (including the Free Software Foundation) to eliminate

117 Wallace v. IBM (“Wallace II”), 467 F.3d 1104 (7th Cir. 2006).
118 Id. at 1108.
119 One who represents one-self in a court proceeding without the assistance of a lawyer. BLACK’S LAW DICTIONARY (8th ed. 2004).
121 Id. (citation omitted).
122 Id.
123 Wallace II, 467 F.3d at 1105-06.
124 Id. at 1106.
competition in the operating system market by making Linux available at an unbeatable price.\textsuperscript{125}

The court began by outlining how the GPL operates.\textsuperscript{126} “Under the GPL, which passes from user to improver to user, Linux and all software that incorporates any of its source code will be free forever, and nothing could be a more effective deterrent to competition, Wallace maintains.”\textsuperscript{127} Wallace saw this as a conspiracy.\textsuperscript{128}

While Wallace’s claims could have likely been dismissed tersely offhand, Judge Easterbrook took the opportunity to discuss the GPL and antitrust in detail.\textsuperscript{129} Broadly, Judge Easterbrook inferred and subsequently dismissed three antitrust allegations against the GPL.\textsuperscript{130}

First, the GPL does not encourage predatory pricing.\textsuperscript{131} The argument is that low prices drive producers out of the market; the surviving producer then drives prices up to “recoup losses incurred during the low-price period.”\textsuperscript{132} Judge Easterbrook noted that the GPL keeps prices of its rivals low, benefiting the consumer, but does not ultimately result in a monopoly.\textsuperscript{133} “Employing antitrust law to drive prices up would turn the Sherman Act on its head.”\textsuperscript{134}

Second, those who accept the GPL are not conspirators under the antitrust laws.\textsuperscript{135} Judge Easterbrook emphasized that antitrust law forbids conspiracies that restrain trade, and the GPL does not restrain trade: “[i]t is a cooperative agreement that facilitates production of

\textsuperscript{125} Id. (summarizing district court holding Wallace I, 2006 U.S. Dist. LEXIS 31908, at *4-5) (citations omitted).

\textsuperscript{126} Wallace II, 467 F.3d at 1106.

\textsuperscript{127} Id.

\textsuperscript{128} Id.

\textsuperscript{129} Id.

\textsuperscript{130} Id. at 1106-08.

\textsuperscript{131} Id. at 1106-07.

\textsuperscript{132} Id. at 1106.

\textsuperscript{133} Id. at 1106-07.

\textsuperscript{134} Id. at 1107.

\textsuperscript{135} Id. (“the antitrust laws forbid conspiracies ‘in restraint of trade’”) (citing 15 U.S.C. § 1, § 26).
new derivative works, and agreements that yield new products that would not arise through unilateral action are lawful."\textsuperscript{136}

Finally, the GPL is not price fixing.\textsuperscript{137} While copyright and patent laws afford the right to charge enough for an author to cover their fixed costs, an author is not required to charge more.\textsuperscript{138} Further, “[n]o more does antitrust law require higher prices. Linux and other open-source projects have been able to cover their fixed costs through donations of time; as long as that remains true, it would reduce efficiency and consumers’ welfare to force the authors to levy a charge on each new user.”\textsuperscript{139}

Having dismissed three antitrust challenges to the GPL, Judge Easterbrook concluded that “[t]he GPL and open-source software have nothing to fear from the antitrust law.”\textsuperscript{140}

III. \textit{ProCD, Hill, and Wallace: Law and Economics Enable Efficient Markets and Innovation}

\textbf{A. The relationship between ProCD, Hill, and Wallace}

While \textit{ProCD} and \textit{Hill} seem closely related and addressed contractual issues within the scope of software licenses and hardware warranties, \textit{Wallace} addressed the GPL and antitrust concerns.\textsuperscript{141} Crucially, the progress of open source would have been greatly hindered without the viable use of clickwrap agreements, a close derivative of the \textit{ProCD} shrinkwrap license.\textsuperscript{142} In short, were it not for \textit{ProCD}, and the re-affirmation (and, arguably, broadening of the

\begin{itemize}
\item \textsuperscript{136} \textit{Wallace II}, 467 F.3d at 1107 (citations omitted).
\item \textsuperscript{137} \textit{Id.}
\item \textsuperscript{138} \textit{Id.}
\item \textsuperscript{139} \textit{Id.}
\item \textsuperscript{140} \textit{See} Specht \textit{v.} Netscape Commc ’ns Corp., 306 F.3d 17, 22 n.4 (2d Cir. 2002).
\item \textsuperscript{141} \textit{Wallace II}, 467 F.3d at 1105.
\item \textsuperscript{142} \textit{See} Specht \textit{v.} Netscape Commc ’ns Corp., 306 F.3d 17, 22 n.4 (2d Cir. 2002).
\end{itemize}
holding in Hill), Wallace may never have required the attention of the court: open source’s innovative licensing model would have been too difficult to administer without clickwrap licensing.

If open source developers could not efficiently, through the use of a clickwrap license, require future improvements to be shared and integrated with the software, the open source model would not be effective. There likely would not exist the community contributions that have, in many cases, allowed open source software to evolve into a viable alternative to commercial software.

In turn, the open source software—in competition with commercial software—has spawned some innovations in commercial software. Firefox, for example, implemented the concept of “tabbed” Internet browsing in early 2004. Tabbed Internet browsing enables a user to have multiple websites open concurrently within one window (previously, a different window was required for each website a user visited). This useful feature was later included in Microsoft’s Internet Explorer 7.0 browser in late 2005.

Accordingly, thanks to ProCD and similar decisions in other circuits enabling shrinkwrap, and in-turn, clickwrap agreements, open source has been able to thrive. Of course, Judge Easterbrook (through ProCD) created open source in the same manner that Al Gore created the Internet: Judge Easterbrook tangentially enabled open source to thrive just as Al Gore, through legislation, approved funds that led to the development of the Internet. Nevertheless, a relationship

144 Tabbed browsing allows for multiple Internet sites to be open in one window, as opposed to having a different window open for each site.
146 See Stein, supra note 82, at 187-90 (discussing the success of open source software and the different licenses employed).
exists between ProCD and open source, which led to the Wallace decision.

B. Law and Economics: A Common Theme that Promotes Efficient Markets and Innovation

Judge Easterbrook and Judge Posner are regularly associated with the so-called “law and economics” movement. Essentially, this is the application of economic analysis to legal problems. This analytical framework has been applied in many legal areas, including “criminal law, family law, employment discrimination, and procedural law.”

Indeed, the themes of law and economics run through ProCD, Gateway 2000, and Wallace. Shrinkwrap and clickwrap licenses, as Judge Easterbrook notes, reduce transaction costs and make markets more efficient. The Gateway 2000 warranty also reduces transaction costs and leads to market efficiency. Finally, the GPL enables open source software to compete head on with commercial software, with the rivalry working to the benefit of consumers.

Ultimately, while some take issue with the specifics of Judge Easterbrook’s reasoning and his application of law and economics,

149 Id.
151 ProCD Inc. v. Zeidenberg, 86 F.3d 1447, 1449-50 (7th Cir. 1996).
152 Hill v. Gateway 2000, 105 F.3d 1147, 1150 (7th Cir. 1997).
153 Wallace v. IBM (“Wallace II”), 467 F.3d 1104, 1106-7 (7th Cir. 2006).
154 Notably, 1 Nimmer on Copyright § 1.01 (2006) strongly criticized ProCD, arguing that it misread decisions made by sister circuits and, moreover, inappropriately applied the so-called “extra element test,” whereby a contract is not preempted by federal copyright law if there is an extra element in the contract that takes it outside the scope of copyright law. If the extra element is something that falls within the exclusive scope of Copyright law, such as a promise not to reproduce, covered by 17 U.S.C. § 106, the contract is preempted under 17 U.S.C. §
the outcome of the three decisions have doubtlessly benefited consumers in reducing transaction costs in two ways: 1) purchase costs by not, for example, requiring store clerks to read licenses and warrantees at the checkout line, and 2) enabling the terms of the GPL to be quickly distributed through clickwrap agreements. As discussed supra, enforceability of clickwrap agreements have spurred open source’s emergence as a competitor to commercial software.155

Certainly, other criticisms have been leveled at clickwrap agreements or open source licenses from, for example, disturbing the balance between the public and copyright holders or the one-sided nature of the licenses.156 In enabling innovation, however, Judge Easterbrook’s application of economic theories has resulted in a positive outcome for consumers and, ultimately, has promoted software development progress.

C. The Impact of Wallace

In his article “Taking the Case: Is the GPL Enforceable,”157 Jason B. Wacha outlines some of the major arguments against the GPL enforceability. He then provides an analysis of the validity of each of the arguments.158 Some of the arguments that he debunks include the following: GPL has never been tested in court, the GPL violates export control laws, and the GPL fails as a copyright license.159 Wacha finds

155 Some argue that the GPL itself should be preempted by Copyright law. See generally Dan Thu Phi Phan, Note, Will Fair Use Function on the Internet?, 98 COLUM. L. REV. 169 (2005).
156 See, e.g., Loren, supra note 79.
158 Id. at 457-59 (abstracting the major arguments; throughout the remainder of the article, Wacha meticulously addresses each argument).
159 Id. at 467-71, 481-83.
fault with each of these arguments and others in a spirited legal analysis and defense of the GPL.\textsuperscript{160}

One of the arguments he addresses is the argument that the GPL violates U.S. federal antitrust law.\textsuperscript{161} Wacha predicted that this argument would not succeed because “U.S. antitrust law generally has as its goal the prevention of inappropriate behavior between companies or other groups which counteracts the normal competitive actions of a market economy.”\textsuperscript{162} Wacha then analyzed the argument within the context of the SCO litigation, discussed supra.\textsuperscript{163}

Most notably, while Judge Easterbrook could have easily dismissed Wallace’s (apparently vague) allegations in a two-paragraph analysis, Judge Easterbrook took the opportunity to make a strong and unequivocal statement of support that the GPL did not violate antitrust laws.\textsuperscript{164} Given the nature of the plaintiff’s apparently vague allegations, this was an easy case to decide.\textsuperscript{165} Judge Easterbrook’s decision undoubtedly sends an important message to those who would challenge the GPL on antitrust grounds in other circuits.

\textit{Wallace} validates Wacha’s prediction that the GPL does not violate antitrust law, at least in the Seventh Circuit.\textsuperscript{166} But the impact of \textit{Wallace} is likely broader than just the Seventh Circuit. Indeed, \textit{Wallace} was widely reported among Internet bloggers\textsuperscript{167} and on the

\begin{itemize}
  \item \textsuperscript{160} Id. at 459-92.
  \item \textsuperscript{161} Id. at 476-80.
  \item \textsuperscript{162} Id. at 476-80.
  \item \textsuperscript{163} Id.
  \item \textsuperscript{164} Wallace II, 467 F.3d at 1108 (“The GPL and open-source software have nothing to fear from the antitrust laws”).
  \item \textsuperscript{165} Id. (“A ‘quick look’ is all that’s needed to reject Wallace’s claim.” (citations omitted)).
  \item \textsuperscript{166} See Wacha, \textit{supra} note 152, at 476-80.
\end{itemize}
influential Groklaw website, which closely tracks the IBM v. SCO litigation and related legal challenges to open source.\textsuperscript{168}

Undoubtedly, other legal challenges to the GPL and similar open source licenses will be leveled in the future. Because Judge Easterbrook took the opportunity to make a strong statement in defense of the GPL, it would seem that, at least in the Seventh Circuit, the GPL is safe from antitrust challenges.\textsuperscript{169}

Wallace’s significance also stems from the court’s continued willingness to apply law and economics reasoning to software licensing matters. Public policy—as measured by increased competition and software innovation—would favor allowing the open source development model to continue to flourish. The application of law and economics appropriately reflects these policy concerns in considering this innovation along with the legal questions facing the court.

**CONCLUSION**

In tracking the Seventh Circuit Court of Appeals’ decisions from *ProCD v. Zeidenberg*, through *Hill v. Gateway 2000*, and ultimately to *Wallace v. IBM*, the Seventh Circuit, and specifically Judge Easterbrook, have positively impacted the economics of information technology transactions, both software and hardware. Along the way, by applying law and economics reasoning to software issues, consumers have ultimately benefited via the innovation of open source software.

In challenges to software licensing arrangements, courts should apply law and economics reasoning, following the trend established in the U.S. Court of Appeals for the Seventh Circuit. In so doing, software developers will be able to continue to drive innovation in the best traditions of Congress’ enumerated power in the constitution, to “promote the Progress of Science and useful Arts.”\textsuperscript{170}

\textsuperscript{168} http://www.groklaw.net/ (last visited Apr. 18, 2007).
\textsuperscript{169} *Wallace II*, 467 F.3d at 1108.
\textsuperscript{170} U.S. Const. art. I, § 8.
OBJECTIVELY UNREASONABLE: 
THE SEVENTH CIRCUIT LIMITS CRIMINAL 
DEFENDANTS’ RIGHTS UNDER THE 
CONFRONTATION CLAUSE 

GABRIELA M. REYES-NOYOLA* 


INTRODUCTION 

Imagine a situation where you have been pulled over by a police officer. The police officer thinks you may have been drinking and asks you to perform some field sobriety tests. You fail the tests. He then gives you a commonly used alcohol field test which comes up negative. The officer prompts you to go to the local hospital to have your blood and urine tested for drugs. You agree. At the hospital, under the watchful eye of the police officer, a laboratory technician collects your chart and notices that the “Reasons for Test” box indicates that the cause for these tests is “Reasonable Suspicion/Cause.”1 Also included on the chart is a conspicuously placed, handwritten note stating “Blood Drug Screen—Requested by 

* J.D. candidate, May 2007, Chicago-Kent College of Law, Illinois Institute of Technology; B.A Government, Franklin and Marshall College. Thank you to Professor Morris and Julia Lissner for all their help. Very special thank you to my mother, sister, family and friends for all of their support during this process and law school in general. 

1 See United States v. Ellis, 460 F.3d 920, 922 (7th Cir. 2006).
The technician takes your blood and urine samples as the officer watches. The results come back positive for methamphetamine. Charged with “use of a controlled substance,” your trial begins. The police officer testifies that he saw you urinate into a cup and that the laboratory technician took a sample of your blood for testing. The police officer is the only person who is allowed to testify as to your medical records; the laboratory technician that conducted the tests is not called to testify. The results of your lab exams are admitted into evidence under the ordinary business records exception to the hearsay rule despite your objections.

This scenario is not fiction: it is the reality of the recent Seventh Circuit decision, *United States v. Ellis*. In *Ellis*, the court ruled that blood and urine drug screen records were not testimonial in nature because they were records of regularly conducted activity kept in the ordinary course of business, and thus, were not subject to the Sixth Amendment’s Confrontation Clause. While the Seventh Circuit may have produced a result that is consistent with the purpose of the Confrontation Clause, it did so through flawed reasoning.

This Note will first discuss the history and background of the hearsay rule, its exceptions, and the Confrontation Clause. It will then consider the issue of whether a business record prepared in anticipation of litigation should be admitted into evidence without giving the defendant the opportunity to cross-examine the declarant.

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2 See id.
3 Id.
4 Id. at 927.
5 Robert L. Windon, Crawford v. Washington - How the Seventh Circuit Improperly Defined “Testimonial,” 1 SEVENTH CIRCUIT REV. 105 (2006), at http://www.kentlaw.edu/7cr/v1-1/widon.pdf. (The underlying purpose of the Confrontation Clause is to enhance the accuracy in the fact-finding process, therefore, it only approves of hearsay that is “marked with such trustworthiness that there is no material departure from the reason of the general rule”).
6 Discussed further, infra.
7 “1. One who has made a statement <in accordance with the rules of evidence, the statement was offered to prove the declarant’s state of mind>. 2. One who has
In addressing that issue, this Note will focus on the line of cases that explain the evolution of the Confrontation Clause and its relationship with the hearsay exceptions. The discussion focuses on the split within the authorities and argues that, although the Seventh Circuit may have reached the right decision, it did so with flawed reasoning. Finally, this Note provides a possible solution to the split in authorities. This Note ultimately concludes that the courts are using a sliding scale when attempting to decide whether evidence that has been prepared in anticipation of litigation is testimonial or nontestimonial and propose a bright line rule for use in future cases.

I. THE CONFRONTATION CLAUSE

John Henry Wigmore famously stated that “cross-examination is ‘beyond any doubt the greatest legal engine ever invented for the discovery of truth.’” “This open examination of witnesses *viva voce*, in the presence of all mankind, is much more conducive to the clearing up of truth than the private and secret examination taken down in writing before an officer or his clerk.”

Wigmore’s quote, made over seven hundred years ago, reverberates loudly to this very day as evidenced by the embodiment of his quote’s spirit in the Constitution of the United States. The Sixth Amendment’s Confrontation Clause requires that “in all criminal prosecutions, the accused shall enjoy the right . . . to be confronted

\[\text{signed a declaration, esp. one stating an intent to become a U.S. citizen <the declarant grew up in Italy>.}’\] \textit{BLACK’S LAW DICTIONARY} (8th ed., 2004).

\textit{COLUMBIA ENCYCLOPEDIA} (6th ed. 2001-2005). John Henry Wigmore is a noted American legal educator. Wigmore is most known for his work on \textit{Treatise of Evidence} and other books on Evidence. He was a professor at Northwestern University School of Law from 1893 until 1901, when he became Dean of the Law Faculty until 1929.


\textit{Commentaries} 373.

\textit{See U.S. CONST. amend. VI.}
with the witnesses against him."12 This basic right was modified throughout the years as a response to such grand state trials as those of Sir Walter Raleigh13 and Sir John Fenwick14 because “[n]othing can be more essential than the cross examining [of] witnesses, and generally before the triers of the facts in question.”15 Moreover, “written evidence . . . [is] almost useless [because] it must be frequently taken ex parte, and but very seldom leads to the proper discovery of truth.”16

The Confrontation Clause envisages personal and cross-examination where the accused “has an opportunity, not only of testing the recollection and sifting the conscience of the witness but of compelling him to stand face to face”17 with his accuser while the trier of fact has the opportunity to witness his or her character and demeanor.18 However, the Supreme Court has recognized that it is impossible to read the language of the Confrontation Clause literally because doing so would require “the exclusion of any statement made by a declarant not present at trial.”19 Thus, the Court has come to recognize and accept that some hearsay will be admissible.20

Under Ohio v. Roberts,21 “if a court deemed a hearsay statement to be sufficiently reliable, the Confrontation Clause usually posed no barrier to admissibility.”22 A statement is considered reliable

12 U.S. CONST. amend. VI.
14 Id.
15 Id. at 49 (quoting R. Lee, Letter IV by the Federal Farmer (Oct. 15, 1787)).
16 Id.
18 Id.
19 Ohio v. Roberts, 448 U.S. 56, 63 (1980) (Brennan, J. dissenting); (while the Court excludes some out-of-court statements under the hearsay rules, the Court has come to recognize that other out-of-court statements should be admissible as exceptions to the hearsay rule).
20 Id.; see also California v. Green, 399 U.S. 149, 156-57 (1970).
22 Prof. Richard Friedman and Jeffrey Fisher, Spotlight on the Confrontation Clause, available at
if it fits within a “firmly rooted” hearsay exception. However, “Crawford rejected this doctrine, holding that the principal focus of the Clause is statements that are testimonial in nature.”

The Confrontation Clause has been a source of much debate—and court attention—throughout the years. One recent debate has centered around the “complexity of reconciling the Confrontation Clause and the hearsay rules,” particularly the admissibility of laboratory reports such as blood-alcohol tests under the business-records exception to the hearsay rule. Prior to Crawford [v. Washington], many courts admitted lab reports, especially concerning analyses of controlled substances, through the testimony of


23 Id.

24 Id. An out-of-court statement that meets that description may not be admitted against an accused to prove the truth of what it asserts unless the accused has had an opportunity to cross-examine the maker of the statement and that person—the witness—is unavailable to testify at trial.


28 In 2004, the Supreme Court overruled thirty years of Ohio v. Roberts when it decided Crawford v. Washington. Crawford ruled that the only “indicium of reliability sufficient to satisfy constitutional demands is the one the Constitution actually prescribes: confrontation.” The Court emphasized that one should focus on the meaning of the word testimonial, when deciding whether the evidence in question should be subject to the requirements of the Confrontation Clause. (The interesting point being that the Court left for another day the opportunity to thoroughly define the word testimonial). It lessened the judge’s ability to use his or her own discretion when deciding the matter in question.
records custodians, lab supervisors or by certification or affidavit."\(^\text{29}\) Confrontation Clause issues were seldom addressed in these situations, although one court did recognize that there could be “constitutional implications of admitting such testimony.”\(^\text{30}\)

II. THE HEARSAY RULES AND THE BUSINESS RECORDS EXCEPTION

Hearsay is defined as “a statement (either a verbal assertion or nonverbal assertive conduct) other than one made by the declarant while testifying at the trial or hearing, offered in evidence to prove the truth of the matter asserted.”\(^\text{31}\) Generally, hearsay is inadmissible in a court proceeding because it is deemed unreliable.\(^\text{32}\) Over time, exceptions and exemptions to this general rule have been developed because courts have recognized that certain statements can be deemed reliable based on the fact that they are trustworthy.\(^\text{33}\) The business records exception to the hearsay rule is one of those situations.\(^\text{34}\)

To qualify as a “business record,”\(^\text{35}\) certain criteria must be met. Specifically, a business record must be “(1) a memorandum, report, record or data compilation . . . made at or near the time, by or from information transmitted by a person with knowledge, and (2) the information must have been kept in the course of a regularly

\(^{29}\) Yermish, supra note 27, at 12.

\(^{30}\) Id. at 13 (citing United States v. Oates, 560 F.2d 45, 80-82 (2d Cir. 1977) (chemist’s report was inadmissible hearsay because admitting report would raise “legitimate doubts regarding the constitutionality” of its introduction)).

\(^{31}\) BLACK’S LAW DICTIONARY (8th ed. 2004).

\(^{32}\) Id.


\(^{34}\) FED. R. EVID. 803(6).

\(^{35}\) Id. A business record is defined as: “[A] memorandum, report, record, or data compilation, in any form, of acts, events, conditions, opinions, or diagnoses, made at or near the time by, or from information transmitted by, a person with knowledge, if kept in the course of a regularly conducted business activity, and if it was the regular practice of that business activity to make the memorandum, report, record or data compilation, all as shown by the testimony of the custodian or other qualified witness, or by certification.”

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conducted business activity.” Once those requirements are met, a court may consider a document to be admissible.

Business records, although hearsay, have come to be recognized as reliable. They are created by a business on a day-to-day basis in an automatic (or procedural) fashion. This, in turn makes it safe to conclude that the business record is not tainted or prejudiced. Thus, courts will be permitted to admit business records as evidence.

The validity or reliability of a business record is tainted where the record is made in anticipation of litigation. This type of situation raises Confrontation Clause concerns because the record has lost its indicium of reliability. There could be a motive for the declarant to manipulate the information in order to further the investigation. Because “records made in anticipation of litigation do not possess the

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36 Id.
37 Id.
38 See id.
39 Id.
40 Id.
41 Id.
42 See Yermish, supra note 27, at 13 (citing People v. Jambor, 271 Mich. App. 1, 9 (2006) (Cooper, P.J. concurring) (The evidence in question, fingerprint cards, “are records prepared in anticipation of litigation, because their purpose was to document the presence of particular individuals at the scene of the crime”)); People v. Rogers, 780 N.Y.S.3d 393, 397 (Third Dept. 2004) (“Documents prepared for litigation lack the indicium of reliability necessary to invoke the business records exception to the hearsay rule”); People v. McDaniel, 670 N.W.2d 659, 661 (2003) (hearsay exception is based on the inherent trustworthiness of business records, which is “undermined when the records are prepared in anticipation of litigation”); BLACK’S LAW DICTIONARY (8th ed. 2004) (defining a business-records exception as “[a] hearsay exception allowing business records (such as reports or memoranda) to be admitted into evidence if they were prepared in the ordinary course of business). If there is good reason to doubt a record’s reliability (e.g., the record was prepared in anticipation of litigation), the exception will not apply.
44 Id.
same trustworthiness of other records,“45 they should not be allowed in as evidence.46

Since Crawford was decided, courts have begun to note that “whether a statement was made with an eye towards prosecution, that is, with the knowledge or for the purpose that it would be used later for prosecution, is an important aspect of delineating between testimonial and nontestimonial evidence.”47 Thus, it has been suggested that a case-by-case analysis should be conducted to consider whether a document was produced “with an eye towards prosecution.”48

Under such a test, if it is found that an objective witness could reasonably be led to believe that the statement would be used at a later trial,49 the court should, at the very least, consider the fact that the record could be testimonial evidence and prompt the State to present its case on why the defendant should not be entitled to its Sixth Amendment rights. This argument is supported by the fact that all evidence should be construed in the light most favorable to the defendant, especially in a criminal trial where the defendant’s liberty is at stake.

With a better understanding of hearsay, the business record rules, and the Confrontation Clause, the discussion will now turn to how the Seventh Circuit reached its decision. Shedding light on its reasoning begins with the Supreme Court case of Ohio v. Roberts.50

46 Id.
47 United States v. Ellis, 460 F.3d 920, 924 (7th Cir. 2006); see Crawford v. Washington, 541 U.S. 36 (2004) (Rehnquist, J. concurring); State v. Crager, 164 Ohio App. 3d 816 (2005) (statements made under circumstances that would lead a reasonable person to conclude that such statements would later be available for use at trial also qualify as testimonial under Crawford); see also United States v. Cromer, 389 F.3d 662 (6th Cir. 2004).
48 Ellis, 460 F.3d at 924.
49 Id.
III. **OHIO V. ROBERTS**

In 1980, the Supreme Court, in an opinion authored by Justice Blackmun, held that (1) a defendant’s “right[s] . . . to be confronted by the witnesses against [the defendant]”\(^{51}\) did not bar admission, at a criminal trial, of an unavailable witness’ statement against the defendant if the statement bore an “adequate indicia of reliability”\(^{52}\) and (2) to meet this test, evidence had to (a) “fall[] within a firmly rooted hearsay exception”\(^{53}\) or (b) “bear[] particularized guarantees of trustworthiness”\(^{54}\).

Roberts was on trial for having forged a check and for possession of stolen credit cards.\(^{55}\) The victim’s daughter was called as the defense’s only witness.\(^{56}\) The daughter testified at the preliminary hearing; however, she did not appear at the subsequent trial despite the fact that several subpoenas were sent to her parents’ home.\(^{57}\) The state attempted to offer the transcript of her previous testimony; however, the defense objected stating that it was a violation of the Sixth Amendment’s Confrontation Clause.\(^{58}\) The trial court admitted the transcript, and the Court of Appeals of Ohio reversed it.\(^{59}\) The Supreme Court of Ohio affirmed, and the case was subsequently heard by the United State Supreme Court on certiorari.\(^{60}\)

The Court concluded that the introduction of the daughter’s testimony did not run afoul of the Sixth Amendment because her prior testimony “bore sufficient indicia of reliability and afforded the trier of

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\(^{51}\) U.S. CONST. amend. VI.


\(^{53}\) Crawford, 541 U.S. at 42.

\(^{54}\) Id.

\(^{55}\) Roberts, 448 U.S. at 58.

\(^{56}\) Id.

\(^{57}\) Id. at 59.

\(^{58}\) Id.

\(^{59}\) Id. at 60.

\(^{60}\) Id.
fact a satisfactory basis for evaluating the truth of the prior statement.” Furthermore, the witness was constitutionally unavailable for purposes of the defendant’s trial. The Court summarized its conclusion by stating that whenever a hearsay declarant is not available to be cross-examined, the Confrontation Clause “requires a showing that he is unavailable.” After meeting this burden, the statement is “admissible only if it bears adequate indicia of reliability.” An adequate indicium of reliability can be found when “evidence falls within a firmly rooted hearsay exception,” however, evidence that does not show “particularized guarantees of trustworthiness” under Roberts, shall be excluded in all circumstances.

For almost thirty years, the Roberts’ “indicia of reliability” test was the method for determining whether evidence could be admitted at trial without triggering the requirements of the Confrontation Clause. However, the landscape changed dramatically when the Supreme Court decided Crawford v. Washington in 2004.

IV. CRAWFORD V. WASHINGTON

In an opinion authored by Justice Scalia, the Supreme Court reversed almost thirty years of precedent when it concluded that “the only indicium of reliability sufficient to satisfy constitutional demands is the one the Constitution actually prescribes: confrontation.”

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61 Id. at 73 (quoting Mancusi v. Stubbs, 408 U.S. 204, 216 n. 12 (1972)).
62 Roberts, 448 U.S. at 65.
63 Id. at 66.
64 Id. (internal quotation marks omitted).
65 Id.
66 Id.
67 Id.
68 Id.
69 Id.
71 Id. at 68-69 (2004) (Rehnquist, J. concurring).
Crawford was on trial for assault and attempted murder. The State wanted to introduce a recorded statement that the accused’s wife had made during a police interrogation as evidence that Crawford had attempted murder and not acted in self-defense. The accused’s wife did not testify at trial because of the state’s marital privilege laws. The Court made note of the traditional Roberts test and concluded that the use of the wife’s statement was a violation of the Confrontation Clause because, “where testimonial statements are at issue, the only indicium of reliability sufficient to satisfy constitutional demands is . . . confrontation.”

In concluding that Roberts must be overruled, the Crawford majority criticized the “indicia of reliability” method as being “unpredictable and inconsistent.” The Court stated that this method confers upon a judge excessive discretion in determining which factors are reliable and which ones are not. Allowing statements in simply because a judge deems them reliable is “fundamentally at odds with the right of confrontation.” The Court further buttressed its conclusion by noting that the Framers were “loath to leave too much discretion in judicial hands.”

The Court took the stance that the Roberts test was a departure from the Sixth Amendment’s historical principles because it would permit “a jury to hear evidence, untested by the adversary process, based on a mere judicial determination of reliability.” Mindful of the immense change it was about to produce, the Court warned that “[d]ispensing with confrontation because testimony is obviously

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72 Id. at 40.
73 Id.
74 Id.
75 Id. at 68-69.
76 Id. at 66 (citing Ohio v. Roberts, 448 U.S. 56, 66 (1980) (Brennan, J. dissenting)).
77 Crawford, 541 U.S. at 67.
78 Id. at 61.
79 Id. at 67.
80 Id. at 62.
reliable is akin to dispensing with jury trial because a defendant is obviously guilty.\textsuperscript{81}

In short, the \textit{Robert}'s test was one of judicial discretion which was highly subjective and malleable.\textsuperscript{82} Under that test, a court's consideration of "whether a statement [should be] deemed reliable depend[ed] heavily on which factors the judge consider[ed] and how much weight [the judge] accord[ed] each of them."\textsuperscript{83} The Court forcefully stated that "[t]he unpardonable vice of the \textit{Robert}'s test . . . [was] not its unpredictability, but its demonstrated capacity to admit core testimonial statements that the Confrontation Clause plainly meant to exclude."\textsuperscript{84} One such statement could be a document made with an eye towards litigation that was admitted under the cloak of the business records exception to the hearsay rule.

The \textit{Crawford} court continued its discussion by declaring that "not all hearsay implicates the Sixth Amendment's core concerns."\textsuperscript{85} It cited examples of hearsay that is unreliable (an off-hand remark) and hearsay that would be arguably admissible in modern times but not in common law times (ex-parte examinations).\textsuperscript{86} However, the crux of the argument is formulated around whether a certain type of hearsay is considered testimonial in nature.\textsuperscript{87}

The Court used Webster's American Dictionary of the English Language to define the word "testimonial" as "[a] solemn declaration

\begin{footnotes}
\textsuperscript{81} Id.
\textsuperscript{82} Id. at 60-61.
\textsuperscript{83} Id. at 63 ("For example, the Colorado Supreme Court held a statement to be more reliable because its inculpation of the defendant was 'detailed,' . . . while the Fourth Circuit found a statement more reliable because the portion implicating another was 'fleeting[.]' . . . The Virginia Court of Appeals found a statement more reliable because the witness was in custody and charged with a crime (thus making the statement more obviously against her penal interest) . . ., while the Wisconsin Court of Appeals found a statement more reliable because the witness was \textit{not} in custody and \textit{not} a suspect") (emphasis in original) (internal citations omitted).
\textsuperscript{84} Id.
\textsuperscript{85} Id. at 51.
\textsuperscript{86} Id.
\textsuperscript{87} Id.
\end{footnotes}
or affirmation made for the purpose of establishing or proving some fact." In order to explain the dictionary definition, the Court gave an illustration of a person who bears testimony: “an accuser who makes a formal statement to government officers bears testimony in a sense that a person who makes a casual remark to an acquaintance does not.” While this example seems to present both extremes, the Court elaborated on the dictionary definition by stating, in dicta, that the following formulations of core classes of testimonial statements share a common nucleus: “[1] ex parte in-court testimony or its functional equivalent—that is, material such as affidavits, custodial examinations . . . or [2] similar pretrial statements that declarants would reasonably expect to be used prosecutorially” and “[3] statements that were made under circumstances which would lead an objective witness reasonably to believe that the statement would be available for later use at trial.”

The second and third formulations—pretrial statements that a declarant would reasonably expect to be used prosecutorially and statements made under circumstances that would lead an objective witness reasonably to believe that the statement would be available for later use at trial—are the definitions of most importance. This is because those formulations help demonstrate that the Seventh Circuit, although they may have reached the right decision, did so for the wrong reasons. It is important to keep these two formulations in mind for the discussion of the Ellis case.

When discussing how testimonial statements would affect the many hearsay exceptions, the Court, in dictum, stated that “most of the hearsay exceptions covered statements that by their nature were not

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88 Id. at 51 (quoting 1 N. WEBSTER, AN AMERICAN DICTIONARY OF THE ENGLISH LANGUAGE (1828)).
89 A person who accuses another of a crime. BLACK’S LAW DICTIONARY (8th ed. 2004).
90 Crawford, 541 U.S. at 51.
91 Id. (quoting Br. for Pet’r at 23).
92 Crawford, 541 U.S. at 52 (quoting Br. for National Association of Criminal Defense Lawyers et al. as Amici Curiae Supporting Pet’r at 3).
testimonial—for example, business records.”93 This statement seems inconsistent with the Court’s earlier declarations,94 leaving lower courts to wonder: how does one deal with hybrid business records that were created in anticipation of litigation or that one “would reasonably expect to be used prosecutorially”?95 If it is true that business records are by their very nature non-testimonial, what happens when there is a blood and alcohol test that was created for the sole purpose of convicting an alleged criminal?96 Although, as we will see, this is still unclear, one thing is certain: “where testimonial evidence is at issue . . . the Sixth Amendment demands what the common law required: unavailability and a prior opportunity to cross examine.”97

V. State v. Davis and Davis v. Washington

Before reaching the discussion on Ellis, there is one more set of important cases to discuss in this evolution: State v. Davis (“Davis I”)98 and on certiorari to the Supreme Court, Davis v. Washington (“Davis II”).99

93 Crawford, 541 U.S. at 56.
95 Crawford, 541 U.S. at 51 (Rehnquist, J. concurring) (quoting Br. for Pet’r at 23).
96 See United States v. Ellis, 460 F.3d 920 (7th Cir. 2006).
97 Crawford, 541 U.S. at 68.
98 111 P.3d 844 (Wash. 2005).
Davis I was being decided when the Crawford ruling changed the state of the law.\textsuperscript{100} Thus, the court had to revisit its initial conclusions to hold that whether statements made during a 911 call are admissible hearsay depends on whether they are testimonial or non-testimonial.\textsuperscript{101} The court noted that this type of determination should be made on a case-by-case basis and “that statements made should be individually evaluated for admissibility in light of the confrontation clause.”\textsuperscript{102}

Davis was arrested and charged with one count of felony violation of the provisions of a domestic no-contact order.\textsuperscript{103} This arrest was prompted by a 911 call from the alleged victim, McCottry.\textsuperscript{104} The State only had two witnesses: the two officers that responded to the 911 call.\textsuperscript{105} McCottry did not testify because the State was not able to find her at the time of the trial.\textsuperscript{106} “The only evidence linking Davis to her injuries was the tape recording of the 911 call.”\textsuperscript{107} The defense objected, arguing that the “admission of the 911 tape would violate Davis’s right of confrontation,”\textsuperscript{108} however, the court admitted the tape under the ‘excited utterance’\textsuperscript{109} hearsay exception.\textsuperscript{110}

The court reasoned that when someone calls 911 as part of an ongoing emergency, he is usually not “bearing witness” to the

\textsuperscript{100} Davis I, 111 P.3d at 844.
\textsuperscript{101} Id.
\textsuperscript{102} Id. at 847.
\textsuperscript{103} Id.
\textsuperscript{104} Id. at 846-47.
\textsuperscript{105} Id. at 847.
\textsuperscript{106} Id.
\textsuperscript{107} Id.
\textsuperscript{108} Id.
\textsuperscript{109} Black’s Law Dictionary (8th ed. 2004) (An excited utterance is defined as “A statement about a startling event made under the stress and excitement of the event. An excited utterance may be admissible as a hearsay exception. Fed. R. Evid. 803(2)).
\textsuperscript{110} Davis I, 111 P.3d at 847 (citing Ohio v. Roberts, 448 U.S. 56 (1980) (Brennan, J. concurring)).
incident; he is simply calling out for help.\textsuperscript{111} However, one could be “bearing witness” if he calls 911 to report a crime, and this “may conceivably be considered testimonial.”\textsuperscript{112} The court continued that McCottry’s call was not intended to bear witness and was simply a call for help as part of an ongoing emergency.\textsuperscript{113}

In an amicus brief it was argued that it is common knowledge that 911 calls may be used for prosecution, making McCottry’s statement one that would fit within the formulations of “core classifications of testimonial hearsay listed in \textit{Crawford}.”\textsuperscript{114} The court dismissed this argument because there was no evidence whatsoever that McCottry “had such knowledge or that it influenced her decision to call.”\textsuperscript{115} Thus, McCottry did not seek to “bear witness” in contemplation of legal proceedings (as implied by the third \textit{Crawford} formulation) and her phone call was arguably not considered testimonial.\textsuperscript{116} It is important to keep this distinction in mind as well for the \textit{Ellis} discussion below.

The \textit{Washington} court noted that the inquiry that \textit{Crawford} demands is “whether the ‘witness’ is testifying.”\textsuperscript{117} In order to determine the answer to the inquiry, one considers whether the person is “bearing witness”\textsuperscript{118} to the event or if the evidence sought to be admitted is one of the “principal evil[s] at which the Confrontation Clause was directed” such as the civil-law mode of criminal

\textsuperscript{111}\textit{Davis I}, 111 P.3d at 850.
\textsuperscript{112}\textit{Id}.
\textsuperscript{113}\textit{Id}.
\textsuperscript{114}\textit{Id} (citing \textit{Crawford} v. Washington, 541 U.S. 36, 51 (2004) (Rehnquist, J. concurring)).
\textsuperscript{115}\textit{Davis I}, 111 P.3d at 850.
\textsuperscript{116}\textit{Id}.
\textsuperscript{117}\textit{Id} at 850.
\textsuperscript{118}\textit{Id}.  

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procedure. The majority did not focus much on developing a method for answering the Crawford inquiry, however, the dissent did.

The dissent, authored by Judge Sanders, focused on the two definitions supra and quoted the Sixth Circuit who noted that: “[t]he proper inquiry . . . is whether the declarant intends to bear testimony against the accused. That intent, in turn, may be determined by querying whether a reasonable person in the declarant’s position would anticipate his statement being used against the accused in investigating and prosecuting the crime.”

The dissent criticized the majority for focusing “on the lack of evidence that McCottry ‘knew’ her 911 call would be used to prosecute” and not whether a “reasonable person in the 911 caller’s position would know that their statement is ‘likely to be used in investigation or prosecution of a crime.’”

The dissent quoted noted scholar Richard D. Friedman: “Whether a statement is deemed to be testimonial . . . depends on whether the statement fulfills the function of prosecution testimony. That function, in rough terms, is the transmittal of information for use in prosecution.” According to the dissent, the 911 call performed this function. The majority did not analyze the 911 call under this definition, so there is no telling what they would have concluded under that classification.

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119 Id. at 850 (noting that the Confrontation Clause was particularly weary of the use of ex parte examinations as evidence against the accused).
120 Id. at 852 (quoting United States v. Cromer, 389 F.3d 662, 675 (6th Cir. 2004)).
121 Davis I, 111 P.3d at 852.
122 Id.
123 Id. at 853 (quoting Richard D. Friedman, Grappling with the Meaning of Testimonial, http://www.law.umich.edu/library/spotlight/confrontationclause/otherauthorities/articles/friedman/friedmandraft.pdf at 2).
124 Davis I, 111 P.3d at 853.
125 See Davis II, 126 S.Ct. 2266 (2006).
The United State Supreme Court granted certiorari in June of 2006 and, in an opinion authored by Justice Scalia, affirmed the Supreme Court of Washington’s holding that “the portion of the 911 conversation in which McCottry identified Davis was not testimonial and that if other portions of the conversation were testimonial, admitting them was harmless beyond a reasonable doubt.”

Justice Scalia recounted the history and purpose of the Confrontation Clause and sought to reach a more structured definition of “testimonial,” at least for the case that was presently before them:

Without attempting to produce an exhaustive classification of all conceivable statements—or even all conceivable statements in response to police interrogation—as either testimonial or nontestimonial, it suffices to decide the present cases to hold as follows: Statement are nontestimonial when made in the course of police interrogation under circumstances objectively indicating that the primary purpose of the interrogation is to enable police assistance to meet an ongoing emergency. They are testimonial when the circumstances objectively indicate that there is no such ongoing emergency, and that the primary purpose of the interrogation is to establish or prove past events potentially relevant to later criminal prosecution.

Even though the definition deals specifically with interrogations, particularly police interrogations, it is important to note that Justice Scalia recognized that one could plausibly take this slightly more

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126 Id. at 2271.
127 Id. at 2273-74.
128 Id. at 2273 n.1. Justice Scalia noted that “our holding refers to interrogations because, as explained below, the statements in the cases presently before us are the products of interrogations—which in some circumstances tend to generate testimonial responses. This is not to imply, however, that statements made in the absence of any interrogation are necessarily non testimonial.
structured definition of testimonial and apply it to other circumstances.\textsuperscript{129}

The above historical explanation has set forth the backdrop under which the Seventh Circuit reached its decision in the 2006 case of \textit{United States v. Ellis}.\textsuperscript{130}

\textbf{VI. \textit{UNITED STATES V. ELLIS}}

\textit{A. The Facts}

On August 22, 2006, the Court of Appeals for the Seventh Circuit decided the matter of \textit{United States v. Ellis}.\textsuperscript{131} A three judge panel led by Judge Kanne ruled that “because the statements of medical personnel ‘were made in the ordinary course of business, [they] are statements that by their nature were not testimonial’ and their admission, therefore, does not violate the Sixth Amendment.”\textsuperscript{132}

Brian K. Ellis was pulled over by a police officer in Indiana.\textsuperscript{133} He failed some initial sobriety tests, but the field alcohol test came up negative.\textsuperscript{134} “With the officer’s prompting, Ellis agreed to go to a hospital to have his blood and urine tested for drugs.”\textsuperscript{135} Ellis was placed in custody and escorted to the hospital by the officers.\textsuperscript{136}

At trial, the police officer testified that he witnessed the lab technician draw Ellis’s blood and watched Ellis urinate into a cup.\textsuperscript{137} “He also testified that the results of the urine test were positive for

\textsuperscript{129} \textit{Id.}
\textsuperscript{130} 460 F.3d 920 (7th Cir. 2006).
\textsuperscript{131} \textit{Id.}
\textsuperscript{133} Ellis, 460 F.3d at 921.
\textsuperscript{134} \textit{Id.}
\textsuperscript{135} \textit{Id.}
\textsuperscript{136} \textit{Id.}
\textsuperscript{137} \textit{Id.} at 922.
methamphetamine.” The medical records were sought to be introduced under the ordinary business records exception in order to prove that Ellis was a controlled substance user. Authentication of the medical records was established by a certificate of authenticity performed by a laboratory technician, in compliance with Federal Rule of Evidence 902(11). The exhibit admitted at trial contained two forms filled out at the local hospital that indicated that the “collector” of the samples was a woman named Kristy. The forms had a preprinted “Reason[s] for Test” box that indicated that the reason for Ellis’s test was “Reasonable Suspicion/Cause.” Furthermore, in the section of one of the forms indicating which test would be performed . . . there is a handwritten note stating ‘Blood Drug Screen—Requested by Officer.’ The urine test was conducted not only by Kristy, but by two out of state labs as well. Both out of state companies and the local hospital produced documents that indicated that Ellis had methamphetamine in his system. Ellis was convicted on all counts.

Ellis argued that the admission of the blood/alcohol tests under the business records exception violated his guarantees under the Sixth Amendment’s Confrontation Clause. The court did not give much credence to his argument; however, it considered both the business records issue and the certification issues in turn.

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138 Id.
139 Id.
140 Id. (it is important to note that Ellis did not object to the authenticity of the records).
141 Id. at 922.
142 Id.
143 Id.
144 Id.
145 Id.
146 Id.
147 Id. at 924.
148 Id. The court addressed the issue of certification in the final part of its decision. Certification sets the foundational basis required to show that the evidence in question is admissible. It must be noted that certification does not determine
The court quickly recognized the “obstacle” of the Crawford Court’s “designation of business records as nontestimonial.” The Court’s overbroad definition is flawed and has caused a lot of confusion. The definition is faulty primarily because “it assumes that all business records are, by definition, nontestimonial” and secondly, because the courts tend to disregard the “long-held standards or conditions applicable to defining business records” which tends to make such records testimonial as defined by Crawford.

One court acknowledged that the Supreme Court’s designation of business records as nontestimonial was purely dictum and refused to find it controlling. That court dismissed the above designation because, it argued that not only is it dictum, but it does not properly acknowledge that “while some evidence may fall within the general business-record exception, other business records should nonetheless be subject to a analysis to be excluded from evidence thereunder because they are in fact testimonial.” The Seventh Circuit preferred to take the literal, blanket approach, instead of a case-by-case analysis to resolving whether a defendant’s Sixth Amendment rights have been violated. While this approach may not necessarily conflict with the underlying purpose of the Confrontation Clause, it does seem to conflict with the current developments in the law of the Confrontation Clause.

whether confrontation concerns will be raised; however, it helps lay the proper foundation that will in turn determine whether the evidence is admissible.

149 Id.
150 Id.
151 See supra note 86.
152 Yermish, supra note 27, at 13.
153 Id.
154 Id.
155 Id. at 13 n.23 (quoting State v. Crager, 844 N.E.2d 390, 397 (Ohio Ct. App. 2005)).
156 Yermish, supra note 27, at 13 (quoting Crager, 844 N.E.2d at 397).
157 See United States v. Ellis, 460 F.3d 920 (7th Cir. 2006).
B. The Business Records Exception as Applied in Ellis

Ellis “attack[ed] the underlying medical records by arguing that they were created not because of routine medical procedures, but because of government investigation.”158 The court then makes an argument that they in essence seem to totally disregard. It noted that “the records used against Ellis . . . might be considered testimonial because they were created under police supervision and during an investigation for the purpose of determining whether a crime had been committed.”159 Without really explaining why it dismissed this seemingly viable argument, the court continued its discussion by indicating that “whether a statement was made with an eye toward prosecution, that is, with the knowledge or for the purpose that it would be user for later prosecution” is important when designating between testimonial and non testimonial statements.160 It found support for these statements and for the definitions of “testimonial” in the First,161 Second,162 Third,163 and Sixth Circuits.164 The court even noted that in the past it had rejected arguments made under Crawford because the statements were “not [considered] testimonial because

158 Id. at 924.
159 Id.
160 Id.
161 Id. at 924 (citing United States v. Maher, 454 F.3d 13, 20 (1st Cir. 2006) (holding a statement to be testimonial because “it [was] clear that an objectively reasonable person in [the declarant’s] shoes would understand that the statement would be used in prosecuting [the defendant] at trial”)).
162 Ellis, 460 F.3d at 924 (citing United States v. Saget, 377 F.3d 223 (2d Cir. 2004)).
163 Ellis, 460 F.3d at 924 (citing United States v. Hinton, 423 F.3d 355 (3d Cir. 2005) (noting that statements are testimonial when “made under circumstances which would lead an objective witness reasonably to believe that the statement would be available for use at later trial”)) (citations and quotations omitted)).
164 Ellis, 460 F.3d at 924 (citing United States v. Cromer, 389 F.3d 662 (6th Cir. 2004) (noting that a statement is testimonial when “a reasonable person in the declarant’s position would anticipate his statement being used against the accused in investigating and prosecuting a crime”)).
they were not made with the respective declarants having an eye towards criminal prosecution.”

In 2004 the Second Circuit decided *United States v. Saget*.

Saget was indicted for firearms trafficking, conspiring to traffic firearms, and for making false statements in connection to the trafficking of firearms. Saget’s co-conspirator was a man named Beckham. Beckham engaged in several conversations with a person he later came to find out was a confidential informant. These conversations were tape recorded without Beckham’s knowledge.

At Saget’s trial, Beckham was not available to testify, and the state sought to admit the taped conversations under the 804(b)(3) hearsay exceptions. Because *Crawford* had not yet been decided, the trial court concluded that “the admission of the statements as substantive evidence of Saget’s participation in the conspiracy did not violate the Confrontation Clause because the statements bore particularized guarantees of trustworthiness required under *Ohio v. Roberts*.“ However, before oral arguments were heard, the Supreme Court decided *Crawford v. Washington*, which dramatically changed the legal landscape.

On appeal, the Second Circuit stated that “*Crawford* at least suggests that the determinative factor in determining whether a

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165 *Ellis*, 460 F.3d at 925 (quoting United States v. Gilbertson, 435 F.3d 790, 795-96 (7th Cir. 2006) (citing *Crawford v. Washington*, 541 U.S. 36, 56 n.7 (2004))).
166 377 F.3d 223 (2d Cir. 2004).
167 *Id.* at 225.
168 *Id.*
169 *Id.*
170 *Id.*
171 *Id.* Rule 803(b)(3) speaks to the hearsay exception relating to statements made against penal interest.
172 *Saget*, 377 F.3d at 225.
173 *Id.* at 226. *Crawford*, discussed *passim*, held that no prior testimonial statement made by a declarant who does not testify at the trial may be admitted against a defendant unless the declarant is unavailable to testify and the defendant had a prior opportunity to cross-examine him or her.
declarant bears testimony is the declarant’s awareness that his or her statement may later be used at trial.”\textsuperscript{174} It further intimated that the examples presented in \textit{Crawford} “provide that the statement must be such that the declarant reasonably expects that the statement might be used in future judicial proceedings.”\textsuperscript{175} While the Supreme Court did not expressly adopt any particular or express definition, because they all share a common nucleus, the Second Circuit argued that the Supreme Court would probably agree to use the “reasonable expectation of the declarant as the anchor of a more concrete definition of testimony.”\textsuperscript{176} Thus, a more narrow definition of \textit{testimonial} began to emerge.

The Third Circuit’s decision in \textit{United States v. Hinton}\textsuperscript{177} echoes the Second Circuit’s ruling in \textit{Saget}.\textsuperscript{178} The court began its opinion by reciting the changes in the law post \textit{Crawford} and continued by stating that “where an objective witness reasonably anticipates that a given statement will be used at a later trial, that statement is likely testimony in the sense that it is offered to establish or prove a fact.”\textsuperscript{179}

Hinton had appealed his conviction for possession with intent to distribute cocaine.\textsuperscript{180} The main issue, as with the other relevant cases, is whether the evidence being sought to be admitted was testimonial in nature, and thus, subject to the Confrontation Clause.\textsuperscript{181} However, the key question is what is the definition of testimonial?

This court derived its definition of testimonial from the Supreme Court’s use of the word \textit{witness}.\textsuperscript{182} “The term ‘witnesses’ . . . embraces all those who ‘bear testimony,’ whether at trial or outside the

\begin{itemize}
\item \textsuperscript{174} \textit{Id.} at 228.
\item \textsuperscript{175} \textit{Id.}
\item \textsuperscript{176} \textit{Id.}
\item \textsuperscript{177} \textit{United States v. Hinton}, 423 F.3d 355 (3d Cir. 2005).
\item \textsuperscript{178} \textit{See Saget}, 377 F.3d 223.
\item \textsuperscript{179} \textit{Hinton}, 423 F.3d at 355, 357-59.
\item \textsuperscript{180} \textit{Id.} at 356.
\item \textsuperscript{181} \textit{Id.}
\item \textsuperscript{182} \textit{Id.} at 358.
\end{itemize}
courtroom." Thus, it settled on the language that implies that “testimony” is “[a] solemn declaration or affirmation made for the purpose of establishing or proving some fact.” Once the court reached the conclusion supra, it acknowledged what the Court in Crawford stated as one of its formulation for defining testimonial: “statements that were made under circumstances which would lead an objective witness reasonably to believe that the statement would be available for use at later trial.” To further support its conclusion, the Third Circuit again cited to the Supreme Court’s language in Crawford: “where an objective witness reasonably anticipates that a given statement will be used at a later trial, that statement is likely testimony in the sense that it is offered to establish or prove a fact. As such, absent unavailability and a prior opportunity for cross-examination, it must be subjected to the strictures of the Confrontation Clause.”

Moreover, the Third Circuit, through the Supreme Court’s very language, supports the Second Circuit’s conclusion that when a witness can anticipate that the statement he or she is making could be used at trial, the only way to avoid Sixth Amendment issues is to allow the witness to testify and to be cross-examined by the defendant.

The Third Circuit’s definition was supported again with the First Circuit’s July of 2006 decision, United States v. Maher. Maher dealt with “the admission of [a] non-testifying informants’ out-of-court statements through the testimony of police officers.” Because this case was heard after Crawford was decided, the controlling law dictated that a testimonial out-of-court statement is inadmissible unless “(1) the declarant testifies, or (2) the defendant had a prior opportunity for cross-examination and the declarant is unavailable, or (3) the

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183 Id. (quoting Crawford v. Washington, 541 U.S. 36, 51 (2004)).
184 Hinton, 423 F.3d at 355, 358 (quoting Crawford, 541 U.S. at 51).
185 Hinton, 423 F.3d at 355, 358
186 Id. at 360 (citing Crawford, 541 U.S. at 51, 68).
187 See generally Hinton, 423 F.3d at 355.
188 454 F.3d 13 (1st Cir. 2006).
189 Id. at 19.
evidence is admitted for purposes other than establishing the truth of the matter asserted.”

Since the Crawford decision did not specifically define testimonial, it has been up to the courts to narrow the scope of the definition. The Maher court acknowledged that in “applying Crawford, . . . a statement is testimonial if a reasonable declarant, similarly situated, would have the capacity to appreciate that the statement is of a sort typically preserve[d] . . . for . . . potential prosecutorial use.” In this case, the police officer’s testimony about what he learned from a third party falls within the definition of testimonial because it is similar, if not identical, to one of the examples given by the Crawford court of a testimonial statement.

Other evidence indicated that the statement should be considered testimonial: it should be testimonial because the police officer and the informant made a cooperation agreement which strongly indicates that the statement would be used prosecutorially. Thus, this case supports the proposition that if a declarant is available to testify, and the statement fits the definition of testimonial supra, then the Confrontation Clause will be violated if the declarant does not testify in open court.

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190 Id. at 19-20 (citing Crawford, 541 U.S. at 53-54, 59 n.9 (Rehnquist, J. concurring)).
191 See United States v. Saget, 377 F.3d 223 (2d Cir. 2004); Hinton, 423 F.3d 355; Maher, 454 F.3d 13.
192 Maher, 454 F.3d at 19 (citing United States v. Brito, 427 F.3d 53, 60-61 (1st Cir. 2005) (holding that 911 calls may be testimonial in certain circumstances) (internal quotations omitted)).
193 Crawford, 541 U.S. at 51 (stating various formulations of this core class of “testimonial” statements exist: “material such as affidavits [and] custodial examinations”).
194 Maher, 454 F.3d at 19.
195 Id. at 21.
196 Id.
The cases *supra* primarily involve situations where a police officer is testifying on what he heard from an informant.\footnote{See Hinton, United States v. Hinton, 423 F.3d 355, 355 (3d Cir. 2005); Maher, 454 F.3d at 13.} Although this is not the exact same situation in *Ellis*, the underlying concern is the same: an out-of-court statement made by a witness that can reasonably anticipate that his or her statement could be used prosecutorially needs to be available to testify as to his or her declaration or risk violating the defendant’s constitutional rights.\footnote{See generally Crawford, 541 U.S. 36; United States v. Saget, 377 F.3d 223 (2d Cir. 2004); Hinton, 423 F.3d at 355; Maher, 454 F.3d at 13.}

The Seventh Circuit cited these cases and acknowledged what each one held.\footnote{United States v. Ellis, 460 F.3d 920, 925 (7th Cir. 2006).}

The *Ellis* court continued to move in the direction of finding a violation of the Confrontation Clause and cited to the cases discussed *supra* as well as pointing out that “Ellis . . . appear[s] to be on strong ground in arguing that the results of his medical tests were testimonial” because “[i]t must have been obvious to Kristy\footnote{Kristy is the laboratory technician who performed the tests on Mr. Ellis.} . . . that her results might end up as evidence against Ellis in some kind of trial.”\footnote{Id. at 921-22.} Besides it allegedly being obvious to Kristy that the test results may be used at trial, the court cited further circumstances that would lend a reasonable witness to conclude that the statement could be used prosecutorially.\footnote{Id. at 924.} A police officer not only escorted Ellis to the hospital, but he also watched as the tests were performed.\footnote{Id. at 924.}

The lab charts clearly indicated that the reason for the test was “Reasonable Suspicion/Cause” and that they were “Requested by Officer.”\footnote{State v. Davis (“Davis I”), 111 P.3d 844, 850 (Wash. 2005) (stating that there was no evidence whatsoever that McCottry knew or should have known that her statements would be used at trial when she made the call to 911).}
supra, the court pointed to ample evidence that indicated that Kristy, the lab technician, should have known that these lab exams and the results were “pretrial statements that . . . would reasonably [be] expect[ed] to be used prosecutorially,”206 or “statements that were made under circumstances which would lead an objective witness reasonably to believe that the statement would be available for use at a later trial.”207 Applying this objective, reasonable witness standard, one would think the court would have concluded that the laboratory records were testimonial, however the court chose to go in a different direction than the cases supra and did just the opposite.209

One small “nevertheless” later and the court dismissed its previous four paragraphs worth of arguments210 that are consistent with Crawford.211 The reason behind its decision was eloquently put: the court “d[id] not think th[o]se circumstances transform[ed] what [wa]s otherwise a nontestimonial business record into a testimonial statement implicating the Confrontation Clause.”212 This succinctly put statement begs one particular question: what rises to the level of implicating the Confrontation Clause? Intriguingly, the court does not proffer any support for its one-sentence assertion supra, and it cites

208 See Ellis, 460 F.3d at 924.
209 Id. at 924-26.
210 Id. In United States v. Ellis, the Court of Appeals for the Seventh Circuit devotes at least four full paragraphs to arguments that would logically support a conclusion that Kristy should have known that the statements would be used for later trial. Thus, under the third formulation of Crawford, her acts would be considered testimonial, and therefore only admissible as evidence if the declarant is available to testify and the defendant had a chance to cross-examine the declarant. However, as noted in the article supra, the court rejects its own conclusions without much support.
211 Id.
212 Id. at 925.
only two cases infra for substantiation of its highly subjective conclusion.\textsuperscript{214}

The court may have been correct in its determination if \textit{Roberts} was still the controlling law;\textsuperscript{215} however the court seems to disregard the recent change in the law under the \textit{Crawford} rule that the court clearly acknowledges exists.\textsuperscript{216} In an effort to understand why the Seventh Circuit came to this conclusion, it leads to the question: How are other courts handling similar issues?

VII. OTHER COURT’S APPLICATIONS OF THE BUSINESS-RECORDS EXCEPTION AND THE CONFRONTATION CLAUSE

Recent state court decisions have grappled with issues that are similar to \textit{Ellis} and have ruled contrary to the Seventh Circuit.\textsuperscript{217} The following will discuss the cases, state what they concluded, and attempt to explain why they ruled differently than the Seventh Circuit. Of course, these decision are not binding precedent, however, they may shed some light on why the Seventh Circuit’s argument is flawed.

\textit{A. Rivera v. Florida}

In September of 2005, the District Court of Appeal of Florida, Fifth District heard the case of Rivera v. Florida.\textsuperscript{218} Salvador Rivera

\textsuperscript{213} For support, the Seventh Circuit cites to: United States v. Cervantes-Flores, 421 F.3d 825, 833 (9th Cir. 2005) and United States v. Rueda-Rivera, 396 F.3d 678, 680 (5th Cir. 2005) both holding that certificates of non-existence of records are nontestimonial and thus their admission does not violate the Confrontation Clause.

\textsuperscript{214} \textit{Ellis}, 460 F.3d at 924-26.

\textsuperscript{215} Under \textit{Roberts}, a judge is afforded much more discretion because the test allows otherwise inadmissible hearsay in if it falls within a firmly rooted hearsay exception or if the court deems the statement to be reliable.

\textsuperscript{216} \textit{Ellis}, 460 F.3d at 924-26.


\textsuperscript{218} \textit{Rivera}, 917 So. 2d 210.
had been on trial for allegedly trafficking cocaine.\footnote{Id. at 211.} He appealed the lower court’s decision by arguing that “the court erred in introducing a Florida Department of Law Enforcement (“FDLE”) lab report through the records custodian and in limiting his right to cross-examine the confidential informant involved in his case.”\footnote{Id.} In this case, the State tried to introduce the lab reports through the testimony of one Amanda Julian, the supervisor of the chemist who conducted the lab test.\footnote{Id.} The lower court overruled Rivera’s hearsay objection and the District Court of Appeal of Florida reversed, concluding that the admission of the lab report without the opportunity to cross-examine the declarant was in error.\footnote{Id.}

The court’s main argument revolved around the concern that it “is Rivera’s constitutional right to confront his accusers in a criminal trial.”\footnote{Id.} The court recognized that lab “tests performed in the usual course of hospital business are admissible in criminal cases under the business records exception” because they are inherently trustworthy.\footnote{Id. at 212.} If the reports are reliable enough for medical purposes, then they should be reliable enough for trial.\footnote{Id.} However, it failed to extend this exception to the FDLE lab report because allowing the record into evidence without the opportunity for cross-examination would “threaten Rivera’s right under the Confrontation Clause to question the witness to ensure a fair trial.”\footnote{Id.} By cross-examining the declarant, the defense could have questioned him or her about “chain of custody, methods of scientific testing, and analytical procedures regarding” the reports at issue.\footnote{Id.} The court succinctly concluded its argument by

\footnote{Id.}
persuasively stating that: “[T]he chemist’s report lacks the indicia of reliability characteristic of hospital record cases. The hospital tests a patient’s blood alcohol for the benefit of the patient’s treatment; in contrast, the State tests alleged drug samples to incriminate and convict the accused.”

This language plainly sets forth a logical way of looking at the intersection between the Confrontation Clause and the business records exception to the hearsay rule. If lab records or similar documents are being used to incriminate and convict an accused, then the accused should retain his Sixth Amendment right to confront his accuser. Otherwise, accusers may attempt to thwart the Constitution by allowing “the State to sidestep . . . prov[ing] the elements of the charged offense.” It is especially important when the evidence being sought to be admitted is crucial to the State’s case.

A second Florida state court case echoes the decision made in Rivera, supra.

B. Martin v. Florida

The facts in Martin v. Florida closely mirror those of Rivera. The defendant had been on trial for possession of cocaine and cannabis and was appealing those convictions. The State also attempted to admit an FDLE report to show that the “substances seized from Martin were contraband.” Martin objected to the admission of the FDLE report and the lower court overruled the objection. The Court of Appeal reversed holding that “admission of the FDLE report as a business record without giving appellant the right to examine the

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228 *Id.*
229 *Id.*
230 *Id.*
231 *Id.*
232 *Id.*
233 *Id.*
234 *Id.*

(Thomas, J. dissenting)
author of the report was reversible error" because under Crawford, “the admission of hearsay evidence which was ‘testimonial’ in nature violates the Confrontation Clause unless the declarant is unavailable to testify and unless the defendant had a prior meaningful opportunity to cross-examine the declarant.” The court recognized that Crawford did not define testimonial and that the Court noted that business records are by their nature nontestimonial. However, the Court of Appeal did not get bogged down by Crawford’s dicta and, unlike the Seventh Circuit, focused on the language that implied that testimonial statements were those statements that a witness “reasonably expect[] to be used prosecutorially” or which “would be available for use at later trial.”

The court continued its discussion by admitting that the FDLE report “may meet the definition of a business record,” however, because it was prepared in anticipation of litigation, it should not have been admitted without the opportunity for cross-examination. “The testing memorialized in the report was occasioned solely by the arrest of the appellant and was performed by a state law enforcement agency, and the report was offered by the State in furtherance of a criminal prosecution.” This statement could easily be taken out of the instant case and transplanted into the Ellis opinion in order to support the conclusion that the blood and alcohol lab reports were, in fact, testimonial in nature.

The dissent in this case disagreed with the majority’s decision and cited a series of cases for support. Moreover, the dissent, much

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235 Id. at 1192.
236 Id. (citing Crawford v. Washington, 541 U.S. 36, 59 (2004)).
237 Martin, 936 So. 2d at 1192 (quoting Crawford, 541 U.S. at 55).
238 Martin, 936 So. 2d at 1192.
239 Id.
240 Id.
241 Id.
like the Seventh Circuit, focused on the conclusion in dicta that business records are a likely example of a nontestimonial statement. Its argument continued by refuting the majority’s argument that the FDLE report was created solely to convict the accused, and thus was testimonial, by stating that “an FDLE record is not always intended to bear witness against the accused, because it could also be used to exonerate the accused.” However, it stands to reason that if the defense were to introduce this evidence as conclusory, the State may want to argue that without an opportunity to cross-examine the declarant, the lab report, created in anticipation of litigation and being used to exonerate the accused, could be just as unreliable and untrustworthy.

The dissent concluded that the lab report met the definition of a business record as defined in the Florida Statute and it declined the majority’s in anticipation of litigation argument. “FDLE has no motive to fabricate its reports and has no financial interest at stake. Further, FDLE will not suffer adverse consequences if its scientists report that a tested substance is not contraband.” It summed up its arguments by stating that FDLE lab reports are not produced by law enforcements officers in adversarial settings, unlike an arresting officer’s affidavit, and they are “exactly the type of business records that the legislature intended to authorize as exceptions to the business rule.” While this may be true, it begs the question: Is it fair to infer that an arresting officer’s affidavit, conducted in the regular course of his official business, used as evidence to prove or disprove an accused’s innocence, is so inherently unreliable that it is automatically subject to confrontation? However, a lab report created by a non-governmental entity solely to prove or disprove an accused’s alleged

\[243\text{ Martin, 936 So.2d at 1193.}\]
\[244\text{ Id. at 1194.}\]
\[245\text{ Id.}\]
\[246\text{ Id. at 1195.}\]
\[247\text{ Id. at 1196.}\]
crime is not? There are no clear answers to these questions because even amongst the different state courts, there is a large disagreement on whether laboratory reports are testimonial or nontestimonial in nature.  

VIII. DID THE SEVENTH CIRCUIT GET IT RIGHT?

The Seventh Circuit blindly holds on to the *Crawford* court’s language (in dictum) that business records are by their very nature, nontestimonial statements. It makes it clear that “[i]t do[es] not think it matters that these observations were made with the knowledge that they might be used for criminal prosecution.” But what about the three formulations set forth in *Crawford* of what constitutes a testimonial statement? The Seventh Circuit acknowledges the formulations and even comments that “[w]hether a statement was made with an eye toward prosecution, that is, with the knowledge that it would be used for later prosecution, is an important aspect of delineating between testimonial and nontestimonial evidence.”

Despite this acknowledgement and with very little reasoning and support, the court disregards the *Crawford* formulations. However, the court does attempt to provide some support for its seemingly unreasonable statement by citing two cases, one from the Court of

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248 See, e.g., *id.* (citing People v. Kanhai, 797 N.Y.S.2d 870 (N.Y. Crim’s. 2005) (breathalyzer test results regular business records); People v. Durio, 794 N.Y.S.2d 863 (N.Y. 2005) (autopsy reports business records); but cf. Belvin v. State, 922 So. 2d 1046 (Fla. Dist. Ct. App. 2005) (holding that a breath-test affidavit was testimonial hearsay and not admissible as a business record because the affidavit was prepared in anticipation of litigation)).  
249 United States v. Ellis, 460 F.3d 920, 925 (7th Cir. 2006);  
250 *Id.*  
251 *Id.* at 924 (emphasis added).  
252 *Id.* The court also declares that the records used against Ellis may be considered testimonial in nature because “they were created under police supervision and during an investigation for the purpose of determining whether a crime had been committed.” This is a crucial argument that the court simply disregards without explanation.
Appeals for the Ninth Circuit\textsuperscript{253} and one from the Court of Appeals for the Fifth Circuit.\textsuperscript{254}

The facts presented in both of these cases are very similar, and thus, are considered together. The plaintiffs in both these cases were immigrants who were subsequently caught in the United States without the proper authorization to remain in the country.\textsuperscript{255} Each plaintiff brought a lawsuit against the government alleging that the admission of the certificates of non-existence of records ("CNR"), without the opportunity to cross-examine the declarant, violated their Sixth Amendment rights.\textsuperscript{256} Both of these cases held that CNRs "were nontestimonial despite the fact that they were prepared by the government in anticipation of criminal prosecution" because the creation of the documents was "routine" and too dissimilar from the "examples of testimonial evidence provided by Crawford."\textsuperscript{257}

This line of reasoning is faulty, and these courts erred in a similar manner as the Seventh Circuit did in Ellis. Specifically, all three courts disregarded the definitions set forth in the three Crawford formulations, \textit{supra}, and single-mindedly held on to the "non-exhaustive" list of examples of testimonial statements.\textsuperscript{258} The three courts used a strict, literal approach to their arguments by reading only the black letters written on the page and ignoring the spirit of the Confrontation Clause and of the Supreme Court’s decision.

Justice Scalia stated in \textit{Davis v. Washington} that “[o]ur opinion in Crawford set forth various formulations of the core class of testimonial statements . . . but found it unnecessary to enforce any of them, because some statements qualify under any definition.”\textsuperscript{259} It is hard to believe that the Seventh Circuit would strictly adhere to one

\textsuperscript{253} United States v. Cervantes-Flores, 421 F.3d 825 (9th Cir. 2005).
\textsuperscript{254} United States v. Rueda-Rivera, 396 F.3d 678, 680 (5th Cir. 2005).
\textsuperscript{255} \textit{Cervantes-Flores}, 421 F.3d at 828; \textit{Rueda-Rivera}, 396 F.3d at 680.
\textsuperscript{256} \textit{Cervantes-Flores}, 421 F.3d at 828; \textit{Rueda-Rivera}, 396 F.3d at 680.
\textsuperscript{257} \textit{Ellis}, 460 F.3d at 925-26 (internal quotations omitted).
\textsuperscript{258} \textit{Id}.
\textsuperscript{259} \textit{Davis v. Washington} ("\textit{Davis II}"), 126 S.Ct. 2266, 2273 (2006) (internal quotations omitted).
example stated in dictum of what testimonial is not, disregard the spirit
behind the generalizations made in the non-exhaustive list of core
class of testimonial statements, and ignore the formulations that were
stated in Crawford,\textsuperscript{260} reiterated in Davis I\textsuperscript{261} and Davis II.\textsuperscript{262}

Ellis dealt with laboratory records of blood and alcohol tests.\textsuperscript{263}
It was argued that the only reason for the existence of the records was
for use at trial to prove that a crime had occurred.\textsuperscript{264} Similarly, in
Cervantes-Flores and Rueda-Rivera, the defense also argued that the
only reason for the existence of the records was the immigration
proceeding, and thus, the records should not be ordinary business
records.\textsuperscript{265} Despite the parallel arguments, the two records are very
dissimilar.

Ordinary laboratory records are created when a patient
voluntarily seeks medical attention at a hospital or a laboratory. The
documents are prepared in a routine manner on a daily basis. They are
not prepared with an eye towards prosecution or in anticipation of
litigation. Thus, they are inherently trustworthy and can be admitted at
trial under the business records exception to the hearsay rule.

and three to define what testimonial statements are: Pretrial statements that a
declarant would reasonably expect to be used prosecutorially and statements made
under circumstances that would lead an objective witness reasonably to believe that
the statement would be available for later use at trial).

\textsuperscript{261} State v. Davis, ("Davis I"), 111 P.3d 844, 853 (Wash. 2005) (quoting
United States v. Cromer, 389 F.3d 668, 675 (6th Cir. 2004) (Using the following to
help narrow the incomplete definition of testimonial: A statement made by a
declarant who seeks to bear witness against the accused determined by querying
whether a reasonable person in the declarant’s position would anticipate his
statement being used against the accused in investigating and prosecuting the crime).

\textsuperscript{262} Davis II, 126 S.Ct. at 2273 (Using the following to help define testimonial:
“They are testimonial when the circumstances objectively indicate that there is no
such ongoing emergency, and that the primary purpose of the interrogation is to
establish or prove past events potentially relevant to later criminal prosecution”).

\textsuperscript{263} See Ellis, 460 F.3d 920.

\textsuperscript{264} Id. at 924.

\textsuperscript{265} See United States v. Cervantes-Flores, 421 F.3d 825 (9th Cir. 2005); United
States v. Rueda-Rivera, 396 F.3d 678 (5th Cir. 2005).
The laboratory test conducted in Ellis was prepared solely for use at trial, at the request of an officer (not the patient), and is a perfect example of exactly what the Sixth Amendment was created to protect. It is not an ordinary business record because the document is serving as a “witness” that a crime occurred, thus falling squarely within the definitional of testimonial as set forth in *Crawford*. Therefore, the record should not have been admitted into evidence unless the defendant had a chance to meaningfully cross-examine the declarant as to the method and manner of preparing and maintaining the document in question.

In contrast, the CNR can be seen as an ordinary business record. A CNR is routinely created to prove the absence of a document. In contrast to the two different ways that a laboratory record can come to exist, it appears that a CNR only exists for one purpose: to prove, at a proceeding, whether a certain document exists. Thus, it can be argued that the record is prepared in the same manner and for the same reason every time it is requested making the Seventh Circuit’s reliance on the two CNR cases for support misplaced.

The Seventh Circuit continues to puzzle its audience by citing to its own decision, *United States v. Gilbertson*. The court, in an opinion also authored by Judge Kanne, declared that odometer statements were not testimonial in nature because they were not made with an eye towards criminal prosecution. It continued its discussion by stating that the declarations were not initiated by the government, nor made with the hope that they would later be used at trial against any defendant. In addition, each statement in question was made

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267 Id. at 68.
268 See *Cervantes-Flores*, 421 F.3d at 831 n.2.
269 Id.
270 435 F.3d 790 (7th Cir. 2006).
271 Id. at 796.
272 Id.
prior to a defendant’s involvement in any crime. Therefore, the court’s conclusion seems to flow logically from its reasoning. Unfortunately, this decision only serves to highlight the objectively unreasonable conclusion in *Ellis*.

The *Ellis* court cites the *Gilbertson* holding in its discussion of all the evidence that supports the conclusion that “Ellis may . . . be on strong ground in arguing that the results of his medical tests were testimonial.” This can be found in those four paragraphs, *supra*, that argue the reasons why the laboratory test results should be testimonial in nature. *Gilbertson*’s logic, when applied to *Ellis*, supports the conclusion that a statement is testimonial in nature, despite being labeled as a business record, if it is made with an eye towards criminal prosecution. Although the cases are factually different, the underlying premise is the same: when a document is prepared with an eye toward prosecution, it should be deemed testimonial, and thus afforded the protections of the Sixth Amendment’s Confrontation Clause.

In light of the conclusions reached in *Gilbertson*, it is very difficult to comprehend, let alone reconcile, how the same court came to the opposite conclusion in *Ellis*. Unfortunately, an analysis of other decisions in other courts does little to clarify why the Seventh Circuit ruled as it did.

## IX. WHERE IS THE POLICY?

Public policy helps bolster legal conclusions by putting them in the context of the impact on society. Unfortunately, the Seventh Circuit does not use any public policy arguments to support its seemingly arbitrary conclusion in *Ellis*. Perhaps the court should have inserted some well thought out policy arguments to support its conclusion.

It is a well-known fact that dockets are over-crowded and state’s attorneys, public defenders and trial attorneys are

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273 *Id.*

274 United States v. Ellis, 460 F.3d 920, 924 (7th Cir. 2006).

275 *Id. (see also note 206, supra).*
overworked.276 By limiting the number of witnesses a party is required to present at trial, the average length of a trial can be shortened. Safeguards exist in order to ensure that parties receive their Sixth Amendment right to a speedy trial. One such safeguard is the exceptions to the hearsay rule (discussed supra). When the foundation is laid properly, statements that fall under these exceptions have historically been deemed reliable and trustworthy and thus are admissible in court without lengthy presentations about where the statements came from or how they were made.277 Imagine a trial where every receipt, record, memoranda and document had to be presented in court by each and every declarant. Then, imagine sitting through each and every direct and cross-examination. This scenario would certainly make for lengthy, tedious trials and the core mission of the fact-finder would be endlessly delayed in a needless procedural quagmire. Policy suggests that in order for the public to benefit from fair and just trials, certain reasonable concessions must exist. Restricting the types of witnesses that are required to testify at trial is one such concession.

Ensuring the right of justice for all the parties involved is crucial. One such element of ensuring justice is monitoring the constitutional rights of all the parties involved. Courts should not be allowed to simply have a blanket “hearsay exception” approach for situations such as Ellis, Martin, and Davis without considering the individual facts of the case. For example, laboratories have produced what are known as “false positive” results in the past.278 A “false positive” is “[a] result that is erroneously positive when a situation is normal.”279 When conducted again, the same test can provide a different result. A criminal defendant should be allowed to cross-examine a declarant who has created a document, memoranda or other

276 See, e.g., Alison Retka, A typical week with Missouri Attorney Jasman Lutz, MISSOURI LAWYERS WEEKLY, April 23, 2007; Jerry Crimmins, On defense: Crimes that fiction wouldn't touch, CHICAGO DAILY LAW BULLETIN, March 27, 2007.
277 BLACK’S LAW DICTIONARY (8th ed. 2004).
278 See, e.g., Illinois v. Caballes, 543 U.S. 405 (2005); Green v. Bd. Of County Comm’rs, 472 F.3d 794 (9th Cir. 2007); United States v. Comprehensive Drug Testing Inc., 473 F.3d 915 (9th Cir. 2006).
279 WEBSTER’S NEW WORLD MEDICAL DICTIONARY (2d ed. 2003).
such statement that will be used at trial as evidence against the
defendant. A blanket approach does not seem fair, much less
constitutional, when it comes to the rights of criminal defendants. The
public would not benefit from such an approach and the courts should
be weary about attempting to implement one.

There will be certain occasions when it will be appropriate to
use one of the many hearsay exceptions to offer a statement into
evidence without presenting the witness. That is exactly why the
hearsay exceptions exist. However, in certain situations (such as when
a statement is prepared in anticipation of litigation) courts should
make case-by-case, factual determinations on whether the specific
situation warrants a blanket hearsay exception approach, or if the
situation mandates closer scrutiny. The Confrontation Clause exists for
many reasons, including protecting a criminal defendant’s right to
confronting any and all hostile witnesses against him. In these
situations, and with the high stakes of a criminal prosecution, one or
two extra witnesses seem worth the time spent, especially if it means
protecting a criminal defendant’s constitutional rights. The integrity of
the system demands it.

X. PROPOSED NEW RULE

Courts should attempt to create one uniform way of classifying
and dealing with business records that are made in anticipation of
litigation. There are many benefits to have one uniform rule:
consistency in application, a bright line rule for potential litigants to
follow, as well as ease in applying and understanding the rule.

In order to classify this hybrid type of business records, courts
should look to formulations two and three of the *Crawford* decision.280
Such hybrid statements can include, but are not limited to: (1)

that testimonial statements are those pretrial statements that declarants would
reasonably expect to be used prosecutorially and formulation three declares that
testimonial means statements that were made under circumstances which would lead
an objective witness reasonably to believe that the statement would be available for
later use at trial).
laboratory records made solely in anticipation of litigation; records created to solely prove that a crime was committed; records that would otherwise be ordinary business records but were created solely with an eye towards prosecution.

Thus, a new rule is proposed: if a document is prepared in anticipation of litigation (meaning it fits within one of the two formulations supra), then the document should be considered testimonial, and thus afforded the protections of the Confrontation Clause. This is so because it is extremely important to err on the side of protecting constitutional rights and not on the side of abrogating them.

CONCLUSION

The definition of testimonial has definitely evolved since Crawford was decided in 2004. The courts have grappled with its meaning and attempted to narrow the scope of the definition. It has become clear that statements that are made under circumstances which would lead an objective witness to reasonably believe that the statement would be available for use at a later criminal trial should only be admissible if the declarant is available to testify and there has been an opportunity to cross-examine him or her. However, as this Note has shown, confusion still exists as to how to classify business records that were created in anticipation of litigation. The proposed

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281 See United States v. Ellis, 460 F.3d 920 (7th Cir. 2006).
283 The protection of the Confrontation Clause is: ensuring that the defendant has a meaningful opportunity to cross-examine his accuser.
rule, supra, would provide a workable directive that would help ease judicial inconsistency and help establish a consistent way to deal with this hybrid form of business records.
INTRODUCTION

Should a criminal be able to evade prosecution for money laundering simply by channeling illegal funds through an account that contains “clean” money in addition to the “dirty” proceeds of crime? The Seventh Circuit Court of Appeals recently tackled this matter for the first time in *United States v. Haddad*. In *Haddad*, a grocery store owner convicted of food stamp fraud was found to have channeled both the profit of fraud and his legitimate profit through the business’ operating account. The court was required to determine whether the commingling of the funds could foil the evidentiary requirements of a prosecution under 18 U.S.C. § 1957, a money laundering statute whose key element is that the transaction involves “knowingly engaging in or attempting to engage in a monetary transaction in criminally derived property that is valued greater than $10,000.”

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1 United States v. Haddad, 462 F.3d 783 (7th Cir. 2006).
2 *Id.* at 791.
Noting that the issue was one of first impression, and that it had engendered a circuit split amongst the other courts to have addressed it, the Seventh Circuit concluded that the commingling of funds would not foil prosecution.\(^4\) While the Seventh Circuit achieved the correct result in \textit{Haddad}, they missed an opportunity to reconcile the decisions of the other circuits and articulate a test that fits precedent, the tests of other circuit courts, and the legislative goals incorporated in § 1957 and its companion statute 18 U.S.C. § 1956.\(^5\) By failing to articulate a test that correctly incorporates legislative intent and precedent, the Seventh Circuit did nothing to clarify § 1957 law.\(^6\)

Part I of this Comment will provide a brief look at the history of money laundering law in the United States, including discussion of the legislative history of both 18 U.S.C. § 1956 and § 1957 and an examination of the primary cases which deal with money laundering and which serve as background for the decisions of the Seventh Circuit. Part II will detail the circumstances in \textit{US v. Haddad}, and examine how the court came to their decision. Part III will analyze the Seventh Circuit’s decision and critique its rationale. Part IV will discuss the potential effects of the Seventh Circuit’s holding and discuss how the court missed an opportunity to clarify and distinguish the issue of commingled funds in the context of § 1957 prosecutions.

I. BACKGROUND

\textit{A. Money Laundering Law}

Fundamentally, money laundering is “the process by which one conceals the existence, illegal source, or illegal application of income, and disguises that income to make it appear legitimate.”\(^7\) The ability to

\(^4\) \textit{Haddad}, 462 F.3d at 792.
\(^5\) \textit{Id.}
\(^6\) \textit{Id.}
conceal the origin and nature of funds and to turn those funds into “clean” money is an essential part of any large scale criminal endeavor.8 Prior to passage of federal money laundering statutes, the federal government relied on a combination of Title 21 conspiracy provisions, Title 31 currency transaction reporting, and Title 18 conspiracy statutes to prosecute money laundering activities.9 In the mid 1980’s, the huge profits generated by drug cartels and the proliferation of schemes to circumvent currency reporting laws inspired President Reagan to form a commission to investigate money laundering.10 It soon became clear that financial institutions were turning a blind eye towards transactions which were clearly designed to circumvent established reporting requirements.11 In response to the commission’s findings, Congress passed the Money Laundering Control Act of 1986 (the “Act”), which was codified in 18 U.S.C. §§ 1956, 1957.12

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10 See Executive Order 12,435 on July, 28 1983; see also Strafer, supra note 9, at 150 (“The money laundering legislation developed from three otherwise disparate doctrinal threads (a) an evolving law of conspiracy; (b) forfeiture law; and (c) law enforcement authorities’ perceived difficulties with enforcement of the currency transaction reporting requirements of the Bank Secrecy Act”).
12 See Strafer, supra note 9, at 161.
Section 1956 criminalizes financial transactions that are intended to hide the proceeds of crimes ranging from securities fraud to espionage to smuggling and drug trafficking. Section 1956 defines two categories of offense, “transaction” offenses, and “transportation” offenses. To commit a “transaction” offense, one must:

1) “conduct” or “attempt” to conduct;
2) a “financial transaction”;
3) “involv[ing]” property which represents the “proceeds of specified unlawful activity”;
4) “knowing” that the property constitutes “proceeds” of “some” unlawful activity.

Section 1956 (a)(1)(A) goes on to require intent to either promote “the carrying on of specified unlawful activities” or to violate certain tax codes. Section 1956 (a)(1)(B) requires knowledge either that the transaction is intended to “conceal or disguise the nature, the location, the source, the ownership, or the control of the proceeds of specified unlawful activity” or knowledge that the transaction is meant to “avoid a transaction reporting requirement under State or Federal law.” Section 1956 (a)(2) targets the transportation of funds involved in criminal activity. This section defines transportation as “transportation, transmi[ssion] and transfer” of “a monetary instrument or funds” from place to place in the United States, or to or from the United States to a “place outside the United States.” A third section, § 1956 (a)(3), serves to criminalize transfers in property “represented

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14 Id. at § 1956 (a).
15 Id. at § 1956 (a)(1); see also Strafer, supra note 9, at 161.
17 Id.
18 Id. at § 1956 (a)(2)
19 Id.
to be the proceeds of specified unlawful activity,” providing criminal penalties for those caught in government “sting” operations.20

Section 1956 does not have any minimum value requirement.21 This makes sense in the context of the legislative origins of the law as a tool to deal with structuring crimes meant to evade the requirements of the bank secrecy act, with its currency reporting requirements.22 It also sheds light on the congressional intent of 18 U.S.C § 1957, which has as its central tenet neither a laundry list of predicate offenses nor intent to further the criminal activity, but a minimum value limit of $10,000 in criminally derived property.23

Section 1957 targets anyone who “knowingly engages or attempts to engage in a monetary transaction in criminally derived property of a value greater than $10,000 and is derived from specified unlawful activity.”24 As such, it is potentially much broader than § 1956, which requires that the money come from a specified illegal activity and be concealed in an attempt to further that activity.25 Importantly, unlike § 1956, it is not necessary for the accused to actually launder the funds, or posses any specific intent to “promote the carrying on of specified unlawful activity.”26 Section 1957 applies to any and every transaction totaling $10,000 in illegally generated funds, enabling it to affect

20 Id. at § 1956 (a)(3); see also Max Kaufman et al., Money Laundering, 34 AM. CRIM. L. REV. 793, 797 (1997) (“it is illegal to conduct a financial transaction involving property represented by a law enforcement officer to be the proceeds of a specified unlawful activity” as long as the other intent factors are present).


25 See 18 U.S.C. § 1956; see also Kaufman et al., supra note 20, at 798 (It is suggested § 1957 is broad enough to criminalize seemingly “innocent” acts or commercial transactions); see also Strafer, supra note 9, at 160 (“section 1957 potentially is a much broader section”).

almost any transaction. Indeed, many scholars have noted that this section is “broad enough to criminalize seemingly ‘innocent’ acts or commercial transactions.” This however, was arguably Congress’ intent. Most scholars stress that the law requires only that the violator in a § 1957 case knowingly engage in the transaction involving criminally derived property.

B. Cases Dealing with Money Laundering

Despite federal money laundering laws being more than two decades old, there is a virtual absence of Supreme Court case law. Only *Whitfield v. U.S.*, which held in part that a money laundering conviction does not require an overt act in furtherance of the conspiracy deals with money laundering law in a substantial way. Other Supreme Court cases have obliquely dealt with money laundering through questions of venue, or in questions of sentencing or forfeiture. The Supreme Court has never decided a case which involved a question of commingled funds in either a § 1956 or § 1957 prosecution.

While the Supreme Court has hardly dealt with money laundering laws, and has not touched the subject of commingled funds, the lower courts have tackled the issue on several occasions. Generally, the

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27 See United States v. Rutgard, 116 F.3d 1270, 1291 (9th Cir. 1996) ("statute applies to the most open, above-board transaction").
28 Kaufman et al., supra note 20, at 798; see also Strafer, supra note 9, at 161.
29 See Boran, supra note 8, at 853 (quoting Representative Lundgren: “It is time for us to tell the local trafficker and everyone else, ‘[i]f you know that person is a trafficker and has this income derived from the offense, you better beware of dealing with that person’” H.R. REP. No. 99-855, pt. 1, at 14 (1986)).
30 See Boran, supra note 8, at 853.
33 See, e.g., United States v. Baker, 227 F.3d 955 (7th Cir. 2000); United States v. Davis, 226 F.3d 346 (5th Cir. 2000); United States v. Ward, 197 F.3d 1076 (11th
money laundering statutes have been attacked with little success on a variety of grounds.\textsuperscript{34} Some rejected challenges have been grounded in the theory that the law is too vague to be constitutionally viable.\textsuperscript{35} In dealing with challenges raised under a theory that prosecution for both the predicate offense and money laundering amounts to double jeopardy, courts have generally found that money laundering and the unlawful activity which generated the illicit funds are separate offenses, separately punishable.\textsuperscript{36} Money laundering laws have also been challenged unsuccessfully on grounds that some individual money laundering crimes do not substantially affect interstate commerce, placing them outside the regulation of Congress.\textsuperscript{37}

The issue of commingling of funds has been addressed by the various circuit courts in several cases.\textsuperscript{38} The majority of these cases, however, deal with prosecutions under § 1956, which lacks § 1957’s language requiring that the transaction involve \textit{`criminally derived property of a value greater than $10,000.'}\textsuperscript{39} In fact, dissecting the language of many of the § 1956 cases dealing with commingling of

\begin{itemize}
\item Boran, \textit{supra} note 8 at 865 (\textit{“Three theories that have been used to attack the Money Laundering Act with virtually no success are constitutional vagueness, double jeopardy, and impermissibility of the Congressional act”}).
\item Id.; \textit{see also} United States v. Awan, 966 F.2d 1415, 1424 (11th Cir. 1992) (holding that \textit{“some form of illegal activity is adequately defined”}).
\item Boran, \textit{supra} note 8 at 865-66; \textit{see also} United States v. Edgmon, 952 F.2d 1206, 1213 (10th Cir. 1991); United States v. Rude, 88 F.3d 1538, 1546 (9th Cir. 1996) (conviction for money laundering and underlying offense is not double jeopardy).
\item Boran, \textit{supra} note 8, at 866; \textit{see also} United States v. Owens, 159 F.3d 221 (6th Cir. 1998) (holding that the use of federally insured banks or the transportation of money across state lines creates sufficient nexus with interstate commerce).
\item \textit{See, e.g.}, Baker, 227 F.3d 955; Davis, 226 F.3d 346; Ward, 197 F.3d 1076; Cancelliere, 69 F.3d 1116; Garcia, 37 F.3d 1359; Moore, 27 F.3d 969; Johnson, 971 F.2d 562; Jackson, 935 F.2d 832.
\end{itemize}
funds, the lack of a floor value is one of the key factors in determining that the combined funds can form the basis for prosecution.\textsuperscript{40} Rather, § 1956 (c)(1) specifies that “the term ‘knowing that the property involved in a financial transaction represents the proceeds of some form of unlawful activity’ means that the person knew the property \textit{involved} in the transaction represented proceeds from some form . . . of activity that constitutes a felony under State, Federal, or foreign law.”\textsuperscript{41} In \textit{United States v. Jackson}, for example, Judge Flaum of the Seventh Circuit said, “[w]e do not read Congress’s use of the word ‘involve’ as imposing the requirement that the government trace the origin of all funds deposited into a bank account to determine exactly which funds were used for what transaction.”\textsuperscript{42} This language is repeated and agreed with by the Ninth Circuit in \textit{United States v. Garcia}.'\textsuperscript{43} The Fifth Circuit in \textit{United States v. Tencer} again reiterated the courts’ holdings that § 1956 prosecutions can be upheld by the involvement of funds, without the need to trace all funds to a specified transaction.\textsuperscript{44}

The Seventh Circuit addressed the issue of commingling funds in \textit{United States v. Baker}, a case which was mentioned in the \textit{Haddad} decision.\textsuperscript{45} In this case, Baker, who ran an illegal prostitution operation as part of a business that also consisted of a legal sex shop and strip club, appealed money laundering charges under § 1956.\textsuperscript{46} Baker alleges that the government must separate out the income from

\textsuperscript{40} See Baker, 227 F.3d at 965-66; United States v. Smith, 223 F.3d 554, 576 (7th Cir. 2000).
\textsuperscript{41} 18 U.S.C. § 1956 (c)(1) (emphasis added).
\textsuperscript{42} Jackson, 935 F.2d at 840.
\textsuperscript{43} Garcia, 37 F.3d at 1365.
\textsuperscript{44} United States v. Tencer, 107 F.3d 1120, 1131 (5th Cir. 1997).
\textsuperscript{45} See generally Baker, 227 F.3d 955. Baker, convicted of money laundering and conspiracy relating to a prostitution ring run in conjunction with a legitimate adult book and video store, striptease bar, and x-rated video arcade, alleged that the government had to take into account the fact that some of the proceeds were “clean.” The court found that the “clean” and “unclean” funds, once commingled, became forfeitable.
\textsuperscript{46} Id. at 959.
his legitimate business from that which he gleaned from sexual services for the purpose of prosecution under the money laundering laws.\textsuperscript{47} Again citing cases such as \textit{Jackson}, and \textit{Tencer}, Judge Flaum found that there was no need for the government to trace the proceeds to the individual transactions.\textsuperscript{48} The Seventh Circuit, relying on the language of the \textit{Tencer} and \textit{Jackson} decisions, correctly held that it is not necessary to separate “\textit{bona fide}” income from illegal income because all income is “involved in” the conspiracy that facilitated the crime as a whole.\textsuperscript{49} It is important to note, however, that all of the cases cited in the court’s decision are cases which deal specifically with § 1956 violations, violations which have no minimum value requirement.\textsuperscript{50} \textit{Baker} is notable too for the fact that while Baker was charged with six counts of violating § 1957, that particular statute was not mentioned after the initial recitation of the charges lodged against Baker.\textsuperscript{51}

While there is a fairly substantial body of case law dealing with the commingling of funds in § 1956 cases that generally indicates that commingling will not defeat prosecution, there are only a few cases that specifically address commingling of funds in § 1957 prosecutions.\textsuperscript{52} These include \textit{United States v. Moore}, \textit{United States v. Davis} and \textit{United States v. Rutgard}.\textsuperscript{53} These three cases dealing specifically with commingled funds in § 1957 prosecutions are the three main cases that the Seventh Circuit used to decide \textit{Haddad}.\textsuperscript{54}

In both \textit{Moore} and \textit{Davis}, the Fourth and Fifth Circuits respectively determined that commingled funds can be treated as

\begin{itemize}
\item \textsuperscript{47} \textit{Id.} at 965.
\item \textsuperscript{48} \textit{Id.} at 965-66.
\item \textsuperscript{49} \textit{Id.}
\item \textsuperscript{50} \textit{Id.}
\item \textsuperscript{51} \textit{See generally id.}
\item \textsuperscript{52} \textit{See, e.g., id.} at 965; \textit{United States v. Tencer}, 107 F.3d at 1120, 1131 (5th Cir. 1997); \textit{United States v. Jackson}, 935 F.2d 832, 840 (7th Cir. 1991); \textit{see also United States v. Rutgard}, 116 F.3d 1270 (9th Cir. 1996); \textit{United States v. Davis}, 226 F.3d 346 (5th Cir. 1995); \textit{United States v. Moore}, 27 F.3d 969 (4th Cir. 1994).
\item \textsuperscript{53} \textit{Rutgard}, 116 F.3d 1270; \textit{Davis}, 226 F.3d 346; \textit{Moore}, 27 F.3d 969.
\item \textsuperscript{54} \textit{United States v. Haddad}, 462 F.3d 783, 792 (7th Cir. 2006)
\end{itemize}
illegitimate for the purposes of a § 1957 prosecution. In Moore, the Fourth Circuit was faced with a transaction that involved the sale of commercial condominiums that were purchased primarily with money from fraudulently acquired loans. After selling the condominiums, Moore deposited the proceeds of the sale, some $37,000, in a federally insured bank, giving rise to the § 1957 charge. The court found that, viewing the evidence in the light most favorable to the government, the evidence was sufficient for the jury to find that the $37,000 was criminally derived property. One important aspect of this decision is that the commingling of funds occurred when fraudulent funds were mixed with a small amount of legitimate money in a real estate investment. While the court noted that “money is fungible” a condominium complex is certainly not, and “the illicitly-acquired funds and the legitimately-acquired funds (or the respective portions of the property purchased with each) cannot be distinguished from each other.”

The court in Moore relied on a variety of sources to determine that commingling cannot defeat prosecution. First, they cited cases such as Johnson and Jackson, which deal with commingling of funds in § 1956 cases. The court also discussed the use of arbitrary accounting methods as one way of determining the value, though the case they cited, United States v. Banco Cafetero Panama, dealt with an entirely different forfeiture law. Through this lens, the court

55 See Moore, 27 F.3d at 976-77; Davis, 226 F.3d at 355-56.
56 Moore, 27 F.3d at 971-72.
57 Id. at 975.
58 Id. at 977.
59 Id. at 976-77.
60 Id.
61 See id.
62 Id. at 976.
63 See id. at 977; see also United States v. Banco Cafetero Panama, 797 F.2d 1154, 1159-60 (2nd Cir. 1986) (dealing with forfeiture of drug profits contained in a “commingled” account. The Court determines that, given the burden of proof required in the circumstances presented, the government has a right to use what amounts to either an “illegal-funds in, last out” or “illegal-funds in, first out”
determined that “the transacted funds, at least up to the full amount derived from crime, were the proceeds of the criminal activity or derived from that activity.” Importantly, none of the precedent relied upon dealt with crimes prosecuted under § 1957. Jackson, Johnson, and United States v. Blackmun all dealt with prosecutions under § 1956, while United States v. Heath dealt with other bank fraud statutes.

In United States v. Davis the funds in question were derived from an advance-fee scheme in which Davis took money from clients to procure funding through his supposed access to valuable financial instruments. Davis first argued unsuccessfully that the criminal transactions were not completed by the time that the transactions charged were undertaken, meaning that they could not have been “criminally derived.” Davis then alleged that there was insufficient evidence that he withdrew more than the $10,000 value limit required by § 1957 from the account where he had both legitimate and fraudulently obtained funds. The Fifth Circuit court, following their own rule in Heath, found that the important factor was whether the aggregate withdrawals exceeded the amount of “clean funds” available. The court found that “the government proved aggregate accounting method, at their discretion to overcome the lenient “probable cause for a forfeiture” standard established by Congress).

Moore, 27 F.3d at 977.

See id.

See United States v. Heath, 970 F.2d 1397, 1403-04 (5th Cir. 1992) (in a bank fraud case, aggregate total of withdrawals in question far exceeds the value of legitimate funds available), cert. denied, 507 U.S. 1004 (1993); United States v. Johnson, 971 F.2d 562, 570 (10th Cir. 1992); United States v. Jackson, 935 F.2d 832, 840 (7th Cir. 1991); United States v. Blackmun, 904 F.2d 1250, 1257 (8th Cir. 1990) (section 1956 conviction of drug dealer for four wire transfers with an aggregate value of $11,000, need not trace funds to a particular criminal activity, finding that evidence of criminal activity and a lack of legitimate income is sufficient).

United States v. Davis, 226 F.3d 346, 349 (5th Cir. 2000).

Id. at 355

Id.

Id. at 357.
withdrawals of far more than $10,000 above the amount of clean funds available,” rejecting Davis’ contention that there was insufficient evidence to show that the transfers in question involved more than $10,000 in tainted funds.\textsuperscript{71}

The \textit{Davis} court relied heavily on the rule in \textit{Heath}, a rule developed for the interstate transfer of funds obtained by bank fraud.\textsuperscript{72} This “aggregate” rule was then applied to the case at hand, using the government’s forensic accounting to determine that there were aggregate withdrawals over the $10,000 limit.\textsuperscript{73} The court also took particular care to distinguish the case from \textit{United States v. Poole}, where they had reversed a conviction based on use of commingled funds because the check could have come from clean funds available in the account.\textsuperscript{74} Importantly, the Fifth Circuit explicitly chose its own precedent in the transfer of funds cases such as \textit{Heath}, rather than adopting decisions of either the Fourth Circuit in \textit{Moore}, or the Ninth Circuit in \textit{Rutgard}.\textsuperscript{75}

The outcomes of \textit{Moore} and \textit{Davis} stand in contrast with the Ninth Circuit’s decision in \textit{United States v. Rutgard}.\textsuperscript{76} In \textit{Rutgard}, an ophthalmologist convicted of Medicare fraud faced a § 1957 charge for making transfers out of an account that was funded by Medicare payments, some of which were determined to be fraudulent.\textsuperscript{77} After first finding that only some of the funds the government alleged were fraudulently obtained could actually be shown to be illegal, and a careful analysis of the accounting provided by the government, the court found that the government could not show that the funds proven fraudulent had been touched by the transfers which served as the basis

\textsuperscript{71} Id.
\textsuperscript{72} Id.
\textsuperscript{73} Id.
\textsuperscript{74} Id. (citing United States v. Poole, 557 F.2d 531 (5th Cir. 1977)).
\textsuperscript{75} Id.
\textsuperscript{76} See id. at 355-56; United States v. Rutgard, 116 F.3d 1270, 1290 (9th Cir. 1997); United States v. Moore, 27 F.3d 969, 977 (4th Cir. 1994).
\textsuperscript{77} Rutgard, 116 F.3d at 1290.
of the charges.\textsuperscript{78} After determining that only $46,000 of the money in the commingled account could be shown to be the profit of fraud, the court held that “so far as the evidence at trial goes, more than $46,000 remained in the account” after the transfers in question, and that the “transfers did not necessarily transfer the $46,000 of fraudulent proceeds.”\textsuperscript{79}

One of the key components of \textit{Rutgard} is the way the court differentiated the decisions dealing with § 1956, which overwhelmingly hold that commingling will not defeat a prosecution, with § 1957 law.\textsuperscript{80} Section 1956, the court held in agreement with other interpretations, is meant to catch even transfers which merely involve ill gotten funds.\textsuperscript{81} The court pointed out that the elimination of language which involves “the attempt to cleanse dirty money,” and the “intent to commit a crime or the design of concealing criminal fruits,” makes § 1957 a different, and potentially much broader law.\textsuperscript{82} The court held that § 1957 is a powerful tool because it makes “any dealing with a bank potentially a trap for the drug dealer or any other defendant who has a hoard of criminal cash.”\textsuperscript{83} As such, the court reasoned that “such a powerful instrument of criminal justice should not be expanded by judicial invention or ingenuity.”\textsuperscript{84} The court here pointed out that had the government charged Rutgard with the \textit{deposit} of fraudulent proceeds over $10,000, they probably would have succeeded based on the testimony of its accounting expert.\textsuperscript{85} However, in light of the fact that Rutgard was charged with transfer of the funds, it could not be shown without doubt that his transfers necessarily touched the $46,000 that the court found was fraudulently acquired.\textsuperscript{86}

\textsuperscript{78} Id.
\textsuperscript{79} Id. at 1292.
\textsuperscript{80} See id.
\textsuperscript{81} Id. at 1291-92.
\textsuperscript{82} Id.
\textsuperscript{83} Id.
\textsuperscript{84} Id.
\textsuperscript{85} Id.
\textsuperscript{86} Id. at 1292.
The court specifically mentioned the Fourth Circuit’s decision in Moore, saying that “unlike § 1956, § 1957 does not cover any funds ‘involved.’”  

In examining the circuit split surrounding commingling of funds in § 1957 cases, there are three slightly different holdings from each of the three circuits. The Fourth Circuit’s test in Moore, based largely on § 1956 precedent, seems to hold that commingling can never defeat prosecution, particularly when the transactions involve property rather than money. The Fifth Circuit in Davis relied on their own precedent in cases dealing with fraudulent transfers, took a careful look at the aggregate withdrawals and accounting and held that when the aggregate withdrawals exceeded the amount of clean money, the conviction will stand. Finally, in Rutgard, the Ninth Circuit took a close look at the legislative intent behind both § 1956 and § 1957 and determined that there are enough differences in the two statutes that they could not adopt the § 1956 precedent dealing with commingling, but rather placed the responsibility of accurate accounting on the government.

II. United States v. Haddad

A. The Case

The Seventh Circuit squarely addressed 18 U.S.C. § 1957 in United States v. Haddad, a case which dealt with the foundational crime of wire fraud and included two counts of money laundering. The case followed the misadventures of Anwar Haddad, who, in January of 2000 became the owner of a small “mom and pop” store

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87 Id.
88 See United States v. Moore, 27 F.3d 969, 977 (4th Cir. 1994); Rutgard, 116 F.3d at 1291; United States v. Davis, 226 F.3d 346, 357 (5th Cir. 1996).
89 See Moore, 27 F.3d at 977.
90 Davis, 226 F.3d at 357
91 Rutgard, 116 F.3d at 1291-92.
92 United States v. Haddad, 462 F.3d 783, 786 (7th Cir. 2006).
called the R & F Grocery (R & F). R & F was a part of the United States Department of Agriculture’s (USDA) Food Stamp Program, a program which distributes “food stamp benefits” to low-income families to help them buy staple food items. With the advent of modern technology, food stamp benefits no longer actually involves the distribution of food stamps as such, but provides benefits through an Electronic Benefit Transfer, similar to a debit card, and known as a “LINK card” in the state of Illinois. As part of the Food Stamp and LINK program, participant stores are provided with a specialized point-of-sale machine which deducts money from the LINK card when food is purchased. When the participant scans their card and enters their unique PIN number, the machine checks the balance of the participants account and authorizes the sale of the staple food products. The store’s machine totals the food stamp sales at the end of the day and submits them to the food stamp program, which reimburses the store through an electronic deposit of funds that transfers directly into the store’s designated bank account.

Eligibility for the Food Stamp Program is premised on vendors completing documentation and training programs which spell out the rules of the program. Chief amongst the rules of the program is that the vendor may not redeem food stamp benefits for ineligible items, or for cash. Haddad, upon becoming owner of R & F, signed the applications to continue as a food stamp-eligible vendor.

In the summer of 2002, the Chicago Police Department (CPD) noticed that large numbers of people were gathering outside the R & F

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93 Id.
94 Id.
95 Id.
96 Id.
97 Id.
98 Id.
99 Id. 786-87.
100 Id. at 787.
101 Id.
Grocery around midnight on the first of the month. The CPD then contacted the United States Postal Inspection Service and the USDA to report the suspected food stamp fraud. The USDA compiled a list of R & F’s food stamp redemptions and found suspicious activity. The CPD followed up, and through investigation and use of a “CI” or confidential informant, found that R & F, and in fact Haddad himself, were exchanging food stamp benefits for cash at around 50 cents on the dollar.

After his arrest on August 5, 2002, Haddad admitted that he had been trafficking in food stamps, and that he had instructed his employees to exchange food stamps for cash. A financial analysis of R & F’s bank records determined that of the $1,057,342.72 deposited in the store’s account from April 7, 2000 through August, 2002, $1,056,962.41 were electronic reimbursements from the Food Stamp Program, and only $345.31 were cash deposits. Further analysis of the store’s withdrawals and debits revealed that only $45,748.34 of the money deposited in the account went to purchase Food Stamp Program eligible inventory, while Haddad took $708,546.14 out of the account through checks written to himself or his family or deposits to a personal account at First Savings Bank of Hegeswich. Ultimately, two of these withdrawals, in the form of checks to Haddad and his other bank account formed the basis of the § 1957 charge. After being convicted of one count of wire fraud in violation of 18 U.S.C. § 1343 and two counts of money laundering in violation of 18 U.S.C. § 1957, Haddad appealed, alleging entrapment on the wire fraud charges, insufficient evidence to convict him on the money laundering

102 Id.
103 Id.
104 Id.
105 Id. 787-88.
106 Id.
107 Id. at 789.
108 Id.
109 Id. at 786.
counts, a mistake in jury instructions, and miscalculation of loss amount.\textsuperscript{110}

Haddad’s argument regarding the money laundering counts rested on the premise that the government did not sufficiently prove that at least $10,000 of the checks which formed the foundation of the charge contained “illegitimate” funds.\textsuperscript{111} The Seventh Circuit was confronted with the fact that, in light of the information gleaned during the investigation, Haddad had “commingled legitimate and illegitimate business funds in the R & F business account,” though the government’s accounting showed that 99.96\% of the money deposited in the account was from food stamp reimbursement.\textsuperscript{112}

\textit{B. The Seventh Circuit’s Reasoning and Holding}

The Seventh Circuit used a variety of precedent to make its decision on commingling of funds in \textit{United States v. Haddad}.\textsuperscript{113} The court first cited its own holdings in cases dealing with § 1956.\textsuperscript{114} The court noted that “[i]n similar cases, under 18 U.S.C. § 1956, we have reasoned that ‘[w]e cannot believe that Congress intended that participants in unlawful activity could prevent their own convictions under the money laundering statute simply by commingling funds derived from both ‘specified unlawful activities’ and other activities.’”\textsuperscript{115} The court also reasoned that the “government need not trace every dollar of income and connect it to a specific instance of laundering.”\textsuperscript{116}

\textsuperscript{110} \textit{Id.}
\textsuperscript{111} \textit{Id.} at 791.
\textsuperscript{112} \textit{Id.}
\textsuperscript{113} \textit{Id.} at 791-92.
\textsuperscript{114} \textit{Id.} at 791.
\textsuperscript{115} \textit{Id.} at 791-92 (citing United States v. Baker, 227 F.3d 955, 965-66 (7th Cir. 2000)).
\textsuperscript{116} \textit{Haddad}, 462 F.3d at 792; see also \textit{Baker}, 227 F.3d at 965-66; United States v. Smith, 223 F.3d 554, 576 (7th Cir. 2000).
After looking at its own reasoning regarding commingling in § 1956 cases, the court moved on to an examination of the decisions of other circuit courts to have looked at commingling in § 1957 cases.117 First, the court examined the reasoning of the Fourth Circuit in United States v. Moore.118 Quoting Moore, the court noted that “‘where the funds used in the particular transaction originated from a single source of commingled illegally-acquired and legally-acquired funds or from an asset purchased with such commingled funds, the government is not required to prove that no ‘untainted’ funds were involved, or that the funds used in the transaction were exclusively derived from the specified unlawful activities.’”119

The Seventh Circuit then found the Fifth Circuit’s “similar approach” in United States v. Davis to be instructive.120 The Seventh Circuit agreed with the Fifth Circuit’s use of its own precedent for commingled transfers.121 Citing Davis, the court agreed that “‘when tainted money is mingled with untainted money in a bank account, there is no longer any way to distinguish the tainted from the untainted because money is fungible.’”122

While Haddad advocated use of the Ninth Circuit’s approach to commingled funds, the Seventh Circuit found this “framework untenable.”123 The Seventh Circuit court interpreted the Ninth Circuit’s decision to hold that “‘in the case of withdrawal of funds from a commingled account, the government could only prove that illegitimate funds were withdrawn if all of the funds in the account are proven to be criminally derived.’”124 The court then returned to its own

117 Haddad, 462 F.3d at 792.
118 Id.
119 Id. (citing United States v. Moore, 27 F.3d 969, 976 (4th Cir. 1994)).
120 Haddad, 462 F.3d at 792.
121 Id.
122 Id. (citing United States v. Davis, 226 F.3d 346, 357 (5th Cir. 2000)).
123 Haddad, 462 F.3d at 792.
124 Id. (citing United States v. Rutgard, 116 F.3d 1270 (9th Cir. 1997)).
precedent, finding that in the “analogous area of Section 1956 cases that the Rutgard ‘all or nothing’ approach is unworkable.”\textsuperscript{125}

After interpreting the precedent available, and evaluating the three different holdings of the other circuits, the Seventh Circuit found that Haddad had indeed violated § 1957.\textsuperscript{126} The court found that the “government proved aggregate withdrawals of far more than $10,000 above the amount of clean funds available.”\textsuperscript{127} Continuing, the court noted that “the vast majority of funds transferred to the Haddad’s business account from the food stamp reimbursements were not supported by evidence of legitimate food sales.”\textsuperscript{128} The Seventh Circuit then expressly adopted “the Fourth and Fifth Circuit approaches to the Section 1957 cases and therefore find that the evidence to convict Haddad on money laundering was sufficient.”\textsuperscript{129}

III. ANALYSIS

Given that almost all of the money in Haddad’s business account came from USDA reimbursements that he could not properly account for, and the amount of clearly legitimate cash was negligible, the Seventh Circuit was ultimately correct in its decision.\textsuperscript{130} While the Seventh Circuit did arrive at the right decision, they missed an opportunity to clarify and distinguish § 1957 jurisprudence from § 1956 cases. First, by placing too much reliance on § 1956 precedent, the Seventh Circuit failed to account for differences in the two statutes. Second, the Seventh Circuit’s reasoning glosses over important differences and similarities between the tests of the Fourth, Fifth, and Ninth Circuits in § 1957 cases.

\textsuperscript{125} Haddad, 462 F.3d at 792 (citing United States v. Jackson, 95 F.2d 832, 840 (7th Cir. 1991)).
\textsuperscript{126} Haddad, 462 F.3d at 792.
\textsuperscript{127} Id.
\textsuperscript{128} Id.
\textsuperscript{129} Id.
\textsuperscript{130} Id. at 791.
A. Over-reliance on § 1956 Precedent

To come to its decision in Haddad, the Seventh Circuit relied heavily on both its own precedent in § 1956 money laundering cases, and in the decisions of other courts that were influenced by § 1956 precedent.131 This heavy reliance on § 1956 fails to account for differences between it and § 1957, a difference illustrated by a comparison of the two statutes, and by the circumstances of the § 1956 cases in question.132

While both 18 U.S.C. § 1956 and 18 U.S.C. § 1957 deal with the same general subject, the two statutes clearly have differences.133 Section 1956 seems to address more squarely the original intent of the Money Laundering Act of 1986 as it was presented to Congress.134 Congress’ intent in enacting money laundering statutes was to close loopholes in reporting law caused by narrow interpretation of transaction reporting laws which dealt only with transactions of more than $10,000.135 The language of § 1956 also requires that the activity upon which the charge is based be designed to conceal the origins of the money involved.136 Combining Congress’ goal of preventing “structuring crimes” meant to evade reporting limits with the statutes clearly stated requirement that the transaction be undertaken with the intent to conceal the illegal funds strongly suggests that § 1956 should never be defeated by commingling of funds. In fact, in the § 1956

131 Id. at 791-92; see also United States v. Baker, 227 F.3d 955, 965-66 (7th Cir. 2000); United States v. Smith, 223 F.3d 554, 576 (7th Cir. 2000); United States v. Moore, 27 F.3d 969, 976 (4th Cir. 1994); United States v. Jackson, 935 F.2d 832, 840 (7th Cir. 1991).
135 Strafer, supra note 9, at 159-60.
cases dealing with commingling, the commingling can be construed to be part of the conspiracy to conceal the illegal money.\textsuperscript{137}

Section 1957 represents a potentially broader law.\textsuperscript{138} Its intent has been perceived to be to “dissuade people from conducting even ordinary commercial transactions with people suspected to be involved in criminal activity.”\textsuperscript{139} There is no requirement that the accused money launderer under § 1957 have any intent to further or conceal the unlawful activity.\textsuperscript{140} Section 1957 instead relies on a threshold value to determine whether or not a violation has occurred.\textsuperscript{141}

The importance of the threshold limit and the differences is best illustrated in the Ninth Circuit’s treatment of the two statutes in \textit{United States v. Rutgard}.\textsuperscript{142} The Ninth Circuit court noted that five elements differentiate § 1956 from § 1957; “its title, its requirement of intent, its broad reference to ‘the property involved,’ its satisfaction by a transaction that ‘in part’ accomplishes the design, and its requirement that the intent be to commit another crime or to hide the fruits of a crime already committed.”\textsuperscript{143} The \textit{Rutgard} court noted that “the description of the crime does not speak to the attempt to cleanse dirty money by putting in a clean form and so disguising it,” but that “[t]he statute applies to the most open, above-board transaction.”\textsuperscript{144} The Ninth Circuit called § 1957 “a powerful tool . . . mak[ing] any dealing with a bank potentially a trap for the drug dealer or any other

\textsuperscript{137} See, e.g., United States v. Baker, 227 F.3d 955, 965 (7th Cir. 2000) (“The ‘clean’ money was also ‘involved in’ the conspiracy in that . . . it helped further and facilitate the operation”); United States v. Tencer, 107 F.3d 1120, 1134 (5th Cir. 1997) (“because ‘clean’ money that is commingled with ‘unclean’ money facilitates the money laundering operation, the ‘clean’ money is ‘involved’ in the offense”).

\textsuperscript{138} Strafer, \textit{supra} note 9, at 161.

\textsuperscript{139} Kaufman, et. al., \textit{supra} note 20, at 798 (citing H. REP. NO. 99-855, at 14 (1986)).

\textsuperscript{140} Kaufman, et. al., \textit{supra} note 20, at 798.

\textsuperscript{141} 18 U.S.C. § 1957 (a).

\textsuperscript{142} United States v. Rutgard, 116 F.3d 1270, 1291-92 (9th Cir. 1997).

\textsuperscript{143} \textit{Id.}

\textsuperscript{144} \textit{Id.} (citing 18 U.S.C. § 1957(f)(1) (broadly defining “monetary transaction”)).
defendant who has a hoard of criminal cash derived from specific crimes.”

145 Calling it a “draconian law, . . . powerful by its elimination of criminal intent,” the Ninth Circuit strongly cautions that “[s]uch a powerful instrument of criminal justice should not be expanded by judicial invention or ingenuity.”

146 Ultimately, the Ninth Circuit found that they “do not find helpful in interpreting § 1957 cases the cases applying § 1956.”

147 The Seventh Circuit made a mistake when it applied its § 1956 precedent to the facts in Haddad.148 The two statutes were intended to serve different purposes, and developed in different ways.149 By relying too heavily on inappropriate § 1956 precedent, the Seventh Circuit did nothing to clarify § 1957 enforcement.

B. Use of the Fourth, Fifth and Ninth Circuit Holdings

The Seventh Circuit also based its decision in Haddad on the holdings of the Fourth, Fifth, and Ninth Circuit court decisions. In interpreting these decisions, the Seventh Circuit concluded that the Fourth and Fifth Circuit courts’ tests agreed, while the Ninth Circuit court’s test was judged inappropriate. This analysis failed to properly dissect the decisions of the other circuit courts, and missed important similarities and differences.

145 Rutgard, 116 F.3d at 1291.
146 Id.
147 Id.
148 United States v. Haddad, 462 F.3d 783, 791-92 (7th Cir. 2006).
149 See Strafer, supra note 9, at 161 (noting that the two statutes grew out of the different houses of Congress, with § 1956 developed primarily in the Senate and § 1957 originating in the House of Representatives).
150 Haddad, 462 F.3d 783 at 192.
151 Id.
1. Use of the Moore decision

The Seventh Circuit began its examination of other circuit court law by looking at the Fourth Circuit’s decision in United States v. Moore.152 In Moore, the Fourth Circuit dealt with the issue of commingling in the context of a real estate transaction whose financing was premised on fraudulently acquired loans.153 The evidence in Moore showed that the real estate involved, several commercial condominiums, were purchased with $926,000 obtained by bank fraud and the sale of legitimately acquired properties with an estimated value of $100,000.154 Given that the “overwhelming bulk” of the purchase money was acquired through fraud, and that this fraud effectively made the condominium purchase possible, the court held that the “jury was entitled to conclude . . . that when the condominiums were eventually sold, the net proceeds of that sale were in their entirety property derived from or developed out of the proceeds of Moore’s bank fraud.”155 The court noted that, “when funds obtained from unlawful activity have been combined with funds from lawful activity into a single asset, the illicitly-acquired funds and the legitimately-acquired funds (or the respective portions of the property purchased with each) cannot be distinguished from each other.”156

In each of the other cases dealing with commingling under § 1957, the courts dealt with mixing of funds in legitimate bank accounts rather than a monolithic transaction such as the sale of the condominiums.157 The Fourth Circuit correctly held that commingling in a single asset cannot defeat prosecution.158 When the transaction

152 Id.
153 United States v. Moore, 27 F.3d 969, 977 (4th Cir. 1994).
154 Id.
155 Id.
156 Id. at 976-77.
157 See United States v. Haddad, 462 F.3d 783, 792 (7th Cir. 2006); United States v. Davis, 226 F.3d 346, 356-57 (5th Cir. 2000); United States v. Rutgard, 116 F.3d 1270, 1290-1291 (9th Cir. 1997); see also Moore, 27 F.3d at 976-77.
158 Moore, 27 F.3d at 977.
involves withdrawals from a mixed account, however, it becomes inappropriate to approach the transaction in the same way as a real estate sale. Given that § 1957 requires that the transaction have a “value greater than $10,000 . . . derived from specified unlawful activity,” it becomes necessary for a court faced with commingled funds in a bank account to provide a more accurate accounting of the value of the charged transaction. The Seventh Circuit erred when it relied on the Fourth Circuit’s test in *Haddad*.

2. Use of the *Davis* decision

The second of the circuit court cases examined by the Seventh Circuit in *Haddad* was the *Davis* case out of the Fifth Circuit. In the *Davis* case, the Fifth Circuit paid close attention to the accounting evidence presented by the government. After analyzing the accounting, the court rested its decision on the “aggregate withdrawal” precedent of its fraudulent transfer cases such as *Heath* and *Poole*. The Fifth Circuit noted that using the aggregate withdrawal method is appropriate because “[t]o view each transaction in isolation . . . would defeat the purposes of the statute.” The Fifth Circuit further refined their test by contrasting it with the test advanced in *Rutgard*, rejecting the notion that the entire balance must be withdrawn.

While the Seventh Circuit indicated that they agreed with the Fifth Circuit’s holding, they failed to mention the aggregate withdrawal aspect of that court’s holding. By failing to acknowledge this aspect of the decision, particularly the *Davis* court’s

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159 18 U.S.C. § 1957 (a) (2006); see, e.g., *Rutgard*, 116 F.3d at 1291; *Davis*, 226 F.3d at 357.
160 *Haddad*, 462 F.3d at 792.
161 *Davis*, 226 F.3d at 356, 357.
162 Id. at 357; see also United States v. Heath, 970 F.2d 1397, 1404 (5th Cir. 1992); United States v. Poole, 557 F.2d 531 (5th Cir. 1977).
163 Heath, 970 F.3d at 357.
164 Id. (citing *Rutgard*, 116 F.3d at 1292).
165 *Haddad*, 462, F.3d at 792.
mention of the *Poole* decision, the Seventh Circuit missed the weight the Fifth Circuit placed on accounting.\(^{166}\)

3. Rejection of the *Rutgard* decision

The final case that the Seventh Circuit used to decide *Haddad* was *United States v. Rutgard*.\(^{167}\) *Rutgard* is important for two reasons. First, the court in *Rutgard* advanced a reasonable argument that commingling in § 1956 and § 1957 should not be compared.\(^{168}\) Second, with the exception of the finding that “all the funds” in the questionable account must have been withdrawn to uphold Rutgard’s conviction, the Ninth Circuit’s general rule, and their heavy reliance on accounting evidence are analogous to the Fifth Circuit’s “aggregate withdrawal” test.\(^{169}\)

The Seventh Circuit made no mention of the Ninth Circuit’s argument that § 1956 and § 1957 precedent should be kept separate.\(^{170}\) In fact, the Seventh Circuit made a point of comparing its own § 1956 precedent with the *Rutgard* holding.\(^{171}\) The Seventh Circuit also failed to note the similarities between the Fifth Circuit’s holding in *Davis* and the Ninth Circuit’s holding in *Rutgard*.\(^{172}\) While the Seventh Circuit’s rejection of the “all of nothing” aspect of *Rutgard* was correct, it missed an opportunity to extract and amplify the aspects of the Ninth Circuit’s test that coincide with the Fifth Circuit’s test, and to advance the Ninth Circuit’s holding regarding the differences between commingling in § 1956 and § 1957 law.\(^{173}\)

\(^{166}\) *Id.*

\(^{167}\) *Id.*

\(^{168}\) *Rutgard*, 116 F.3d at 1290-92.

\(^{169}\) *Id.* at 1292; *see also* United States v. *Davis*, 226 F.3d 346, 356-57 (5th Cir. 2000).

\(^{170}\) *Haddad*, 462 F.3d at 792.

\(^{171}\) *Id.*

\(^{172}\) *Id.*

\(^{173}\) *Id.*
The Seventh Circuit missed an opportunity in deciding Haddad. With the evidence at hand, it was clear that Haddad had in fact violated § 1957 by writing checks in amounts greater than $10,000 on an account that could be shown to be almost entirely funded with the profits of food stamp fraud.\(^{174}\) In deciding this case as they did, the Seventh Circuit has left the door open to a potential broadening of the law. In § 1956 cases commingling of funds is often intentional, and serves to meet the requirement that the transaction be conducted “with the intent to promote the carrying on of specified unlawful activity.”\(^{175}\) Section 1957, however, contains no “intent to promote” element, relying on the value of the transaction.\(^{176}\) As such, while no amount of commingling should foil a § 1956 prosecution, a § 1957 prosecution should only rest on solid accounting that shows the value of the transaction was indeed “of a value greater than $10,000 . . . derived from specified unlawful activity.”\(^{177}\)

Ultimately, the Seventh Circuit could have reconciled the tests of the Fifth and Ninth Circuits.\(^{178}\) The Seventh Circuit should have recognized the differences between § 1956 and § 1957 that make it difficult to apply the § 1956 precedent.\(^{179}\)

By stressing only the value of the transaction, and using § 1956 law as comparison, the Seventh Circuit left open ended the question of whether, or what amount, of commingling of funds will or will not foil a prosecution under § 1957. While Haddad had obviously violated the law, the question of whether all transfers from a commingled account invokes § 1957 remains open. The Seventh Circuit has provided no

\(^{174}\) Id. at 791.
\(^{178}\) See United States v. Davis, 226 F.3d 346, 357 (5th Cir.2000); United States v. Rutgard, 116 F.3d 1270, 1291-92 (9th Cir. 1997).
guidance on what to do when the amount of legal and illegal funding is equal, or if the balance tips toward legal funds. Without a better test, prosecution under 18 U.S.C. § 1957 will remain unsettled law.

CONCLUSION

The Seventh Circuit missed an opportunity to amalgamate and solidify the various court’s disparate rulings regarding the commingling of funds in § 1957 cases. Had the court reconciled the similar tests of the Fifth Circuit in Davis and the Ninth Circuit in Rutgard, rejected Rutgard’s all-or-nothing approach, and recognized the fundamental differences between § 1956 and § 1957, it could have articulated a test that would clarify the law.
REVIVING THE POLL TAX: THE SEVENTH CIRCUIT UPHOLDS PHOTO ID REQUIREMENTS AT THE POLLS

MATTHEW W. McQUISTON*

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INTRODUCTION

It is election day. On your way to work, you stop at your local polling place to cast your vote. When you enter the room, however, an election official demands to see your driver’s license. Because you cannot afford a car, you do not have a driver’s license. You try to explain this to the election official, who, despite your pleas, notifies you that you cannot vote today without one. Moreover, he tells you that to vote in the future you must obtain a government-issued photo ID. You understand that such an ID costs money, of which you have very little. Understandably, you would prefer to spend that money on the necessities of life. Helpless, you leave the polling place, discouraged that voting has become a luxury you can no longer afford.

In 2005, the Indiana legislature passed a law which will lead to just this type of scenario, requiring government-issued photo ID.
identification at the polls.¹ To most voters, this might seem like a 
harmless requirement that imposes a minimal burden on our right to 
vote. However, for the indigent, elderly, and disabled, who often lack 
both the need for government-issued identification and the means to 
обtain it, the Indiana “Photo ID Law” presents a major obstacle to the 
right to vote.² Nonetheless, in its January 2007 decision of Crawford v. 
Marion County Election Board, the United States Court of Appeals for 
the Seventh Circuit upheld Indiana’s Photo ID Law.³ In doing so, the 
Seventh Circuit has eroded protection of the right to vote and has 
started down a dangerous path.

In Crawford, a divided court, led by Judge Posner, misapplied the 
legal test articulated in the U.S. Supreme Court case of Burdick v. 
Takushi.⁴ In effect, the majority’s interpretation of Burdick threatens to 
eliminate strict scrutiny review of voting rights cases altogether, in 
contrast of the plain language of the Burdick decision.⁵ Such an 
interpretation is far too deferential to state legislatures, and limits the 
court’s ability to ensure that state voting legislation complies with the 
Constitution.

This Comment will demonstrate that the Seventh Circuit erred in 
its interpretation of Burdick and incorrectly upheld a statute that 
violates the constitutional rights of many Indiana voters. Section I will 
describe the context in which the Seventh Circuit decided Crawford. 
Section II will recount the course of the Crawford litigation, including 
a description of the Seventh Circuit’s opinion in that case and the 
court’s denial of the plaintiffs’ petition for rehearing en banc. Finally, 
Section III will discuss why the Seventh Circuit misapplied Burdick 
and the impact of this decision.

² See Crawford v. Marion County Election Bd., 472 F.3d 949, 955 (7th Cir. 2007).
³ Id. at 954.
⁴ See 504 U.S. 428, 434 (1992); Crawford, 472 F.3d at 952-53.
⁵ See Burdick, 504 U.S. at 434; Crawford, 472 F.3d at 952.
I. CONTEXT OF THE CRAWFORD DECISION

A. The Voting Rights Act and HAVA

In 1965, Congress enacted the Voting Rights Act (“VRA”) in response to widespread state practices that denied voting rights to racial minorities.6 In effect, the VRA affirms the Fifteenth Amendment’s protection of voting rights.7 The VRA outlawed such discriminatory practices as literacy tests and poll taxes.8 The reach of the VRA, however, extends beyond overt discrimination, prohibiting as well practices that diminish the voting power of minorities.9 Such “vote dilution” includes gerrymandering districts, annexing of outlying areas with predominantly white populations, and replacing elected officials with appointed officials.10 Both cases of vote denial and vote dilution fall under the rubric of Section II of the VRA.11

The Supreme Court elaborated the requirements to bring a successful Section II case in White v. Regester.12 In White, the Court held that plaintiffs could prevail on a Section II challenge to an electoral system without directly proving that government decision-

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7 See U.S. CONST. amend. XV, §§ 1, 2 (“The right of citizens of the United States to vote shall not be denied or abridged by the United States or by any state on account of race, color, or previous condition of involuntary servitude); Lopez v Monterey County, 525 U.S. 266, 269 (1999).
9 Tokaji, supra note 6, at 703.
10 Id.
11 Id. at 692.
makers acted with discriminatory intent. The Court reversed course, however, in the case of \textit{Mobile v. Bolden}.\textsuperscript{14} In \textit{Mobile}, a plurality of the Supreme Court required a plaintiff bringing a Section II claim to prove intentional discrimination.\textsuperscript{15} 

\textit{Mobile} involved an at-large election scheme for the city commissioners of Mobile, Alabama.\textsuperscript{16} Under that scheme, all voters in Mobile elected each of the commissioners.\textsuperscript{17} Because whites were a numerical majority in Mobile, they were able to form a “bloc” to shut blacks out of the commission.\textsuperscript{18} Accordingly, the minority citizens of Mobile sued the commission as a class, alleging that the at-large scheme violated the VRA, among other allegations.\textsuperscript{19} The Court disagreed with the minority citizens, holding that it would find an electoral system unconstitutional only upon direct evidence of discriminatory intent.\textsuperscript{20}

Congress amended the VRA in 1982, in direct response to \textit{Mobile}, to adopt the “results test” applied in \textit{White}.\textsuperscript{21} Under this test, a plaintiff could establish a Section II violation by demonstrating discriminatory effects alone, without any showing of discriminatory intent.\textsuperscript{22} This remains the applicable test for Section II violations of the VRA today.


\textsuperscript{15} \textit{Mobile}, 446 U.S. at 65.

\textsuperscript{16} \textit{Id.} at 58.

\textsuperscript{17} \textit{Id.} at 60.


\textsuperscript{19} \textit{Mobile}, 446 U.S. at 58.

\textsuperscript{20} \textit{See id.} at 57.


\textsuperscript{22} \textit{Id.; see also Voting Rights Act}, 42 U.S.C. §§ 1973a, (b) (whereas the original version of § 2 mirrored the Fifteenth Amendment, barring practices that deny or abridge the vote on account of race, the amended version provides: “no
Although the VRA protected the individual right to vote, after the tumultuous 2000 presidential election and the case of *Bush v. Gore* it became clear that new measures were needed to ensure the fairness of U.S. elections. This concern led to the passing of the Help America Vote Act of 2002 ("HAVA"). HAVA set general minimum election standards, including a limited requirement that voters present identification in the form of a photo ID, current utility bill, bank statement, or government check. HAVA also set standards for voting equipment, voter registration, and created the Election Assistance Commission to help implement the act. However, aside from these minimum standards, HAVA left the details of election administration to the states.

**B. Georgia and Indiana Enact Strict Photo ID Requirements**

From the electoral scrutiny that followed the 2000 presidential elections arose a variety of election reform measures across the country. While some legislators have aimed their efforts at fraud prevention and electoral security, others have focused on the burden voting qualification or prerequisite to voting or standard, practice, or procedure shall be imposed or applied by any State or political subdivision in a manner which results in a denial or abridgement of the right of any citizen of the United States to vote on account of race or color... (emphasis added).

23 Tokaji, *supra* note 6, at 693-95; *see generally* 531 U.S. 98 (2000) (per curiam).

24 Tokaji, *supra* note 6, at 693-95; *see generally* 531 U.S. 98 (2000) (per curiam).


27 Tokaji, *supra* note 6, at 696.

28 *See id.* at 689-90 (such measures include ballot security laws, voting machine requirements, standards for recounts and election contests, and absentee voting standards).
such security measures impose on minority voters. These two conflicting viewpoints reflect a fundamental “tension between access and integrity” in elections, with liberals typically favoring access to the polls and conservatives favoring electoral integrity.

The “integrity” side of this debate has prevailed in two states: Indiana and Georgia. Both states enacted laws more strict than the HAVA minimum standards, requiring voters to present government-issued photo identification at the polls to address legislative concerns about election fraud. The Photo ID law specifically provides:

(1) [If a] voter is unable or declines to present the proof of identification; or (2) a member of the precinct election board determines that the proof of identification presented by the voter does not qualify as proof of identification under IC 3-5-2-40.5, a member of the precinct election board shall challenge the voter.

A document satisfies the “proof of identification” requirement if it shows the “name of the individual to whom the document was issued, and the name conforms to the name in the individual’s voter registration record.” A voter who lacks the required identification may cast a provisional ballot, in which case the voter has ten days either to file an affidavit of indigency or to procure the required identification. The Photo ID Law exempts voters who submit

29 Id.
30 Id. at 695.
32 Ind. Code §§ 3-5-2-7.2.
33 Ind. Code § 3-5-2-40.5.
34 Ind. Code §§ 3-5-2-40.5, 3-10-1-7.2, 3-11-8-25.1; Crawford v. Marion County Election Bd., 472 F.3d 949, 950 (7th Cir. 2007).
absentee ballots or voters who live in nursing homes from complying with the photo ID requirement.\textsuperscript{35}

Georgia’s photo identification law is very similar, demanding a government-issued photo ID for access to the polls.\textsuperscript{36} Like the Indiana Photo ID Law, the Georgia law also allows voters without sufficient identification to cast a provisional ballot, which election officials will count only if they are able to verify that the voter is “eligible and entitled to vote.”\textsuperscript{37} However, in many respects, the Georgia law is less severe than the Indiana Photo ID Law. For example, the Georgia law allows almost anyone to vote via absentee ballot, providing an alternative to the in-person photo ID requirement.\textsuperscript{38} Furthermore, the Georgia law allows voters to obtain a voter identification card, which would satisfy the photo ID requirement, without charge.\textsuperscript{39} Yet, the U.S. District Court for the Northern District of Georgia found that even this law exceeded constitutional bounds, and it granted an injunction preventing its enforcement.\textsuperscript{40} This decision left the Indiana Photo ID Law alone as the strictest photo ID requirement in the country.

While other states have enacted laws that require identification at the polls, none have enacted any as harsh as the Indiana or Georgia laws. For example, Arizona requires voters to present a photo ID or two forms of non-photo identification, such as a current utility bill.\textsuperscript{41} A similar law exists in Ohio, where voters must present a state-issued photo ID, a military ID, or a non-photo ID with the voter’s name and current address.\textsuperscript{42} Notably, however, the Arizona and Ohio laws allow those without government-issued photo identification to prove their

\textsuperscript{35} Ind. Code §§ 3-11-8-25.1(e); 3-11-10-1.2.


\textsuperscript{41} Ariz. Rev. Stat. § 16-579 (2007); Tokaji, supra note 6, at 699-700.

identity through other means. No such safety valve exists for voters without the requisite photo identification in Indiana or Georgia.

C. Burdick v. Takushi:
*A Flexible Standard of Review For Voting Rights Legislation*

The U.S. courts have long recognized voting as a fundamental right.\(^\text{43}\) Historically, they have applied strict scrutiny to any state limitation on voting rights, meaning such a limitation must be narrowly drawn to advance a state interest of compelling importance.\(^\text{44}\) The Supreme Court, however, began to soften its stance in the early 1980’s, beginning with the case of *Anderson v. Celebrezze*.\(^\text{45}\)

In that case, Justice Stevens, writing for the majority, overturned an Ohio statute requiring presidential candidates to file a statement of candidacy.\(^\text{46}\) The plaintiff, an independent candidate running for president, complied with all federal registration requirements.\(^\text{47}\) However, he failed to file a statement of candidacy in Ohio and certain other states by those states’ statutory deadlines.\(^\text{48}\) The Court was especially concerned that Ohio’s statute required filing by an early deadline.\(^\text{49}\) In fact, while the major party nominations had only just begun, and the major parties were still five months away from choosing their candidates, Ohio required filing of a candidacy statement.\(^\text{50}\)

Although the Court ultimately struck down the Ohio statute, it announced a two-step test for election cases, in favor of the strict


\(^\text{46}\) *Id.* at 782, 806.

\(^\text{47}\) *Id.* at 782.

\(^\text{48}\) *Id.*

\(^\text{49}\) See *id.* at 790-91.

\(^\text{50}\) *Id.*
scrutiny approach: “consider the character and magnitude of the asserted injury” to the plaintiff’s First and Fourteenth Amendment rights, then “identify and evaluate the precise interests put forward by the State as justifications for the burden imposed by its rule.” In applying this test, the Court required judges to “determine the legitimacy and strength of each of those interests,” and “consider the extent to which those interests make it necessary to burden the plaintiff’s rights.”

Nine years later, the Supreme Court decided *Norman v. Reed*. At issue in *Norman* was a complex statutory scheme limiting ballot access for new political parties in the Chicago area through various means. Taking into account the Court’s concern about limitations on ballot access, Justice Souter, writing for the majority, tempered the Court’s holding in *Anderson* by stating that strict scrutiny may still apply to any law that imposes a “severe” restriction on the right to vote.

The same year the Supreme Court decided *Norman* came the case of *Burdick*. The *Burdick* case arose out of a Hawaii law that prohibited voters from “write-in” voting, in which a person votes for a person not listed on the ballot. In 1986, only one candidate appeared on the ballot for a Hawaii House of Representatives seat in the Plaintiff’s district. Feeling that he could not adequately express his preferences

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51 *Id.* at 789.
52 *Id.* (the Court ultimately found that the Ohio statute placed too great a burden on the freedom of choice and association of voters, and violated the First and Fourteenth Amendments).
53 *See* 502 U.S. 279, 282-84 (1992) (Ballot access for new parties required 25,000 signatures on the party’s nominating petition. If a party gained at least 5% of the vote in the next election, that party would become “established,” and thus exempt from the signature requirement. However, the statute considered parties established only in the political subdivisions in which they had fielded candidates. For instance, an established party in Chicago would not necessarily be established in the greater Cook County area).
54 *See id.* at 288-89.
56 *Id.*
with only one candidate on the ballot, the Plaintiff, Alan Burdick, asked state officials if he could submit a write-in vote.57 The Hawaii Attorney General sent Burdick a letter stating that Hawaii law did not allow such votes.58 Burdick sued Takushi, the Director of Elections for Hawaii, and claimed that Hawaii’s refusal to allow write-in votes violated his First Amendment right to self-expression and association.59

Before the U.S. Supreme Court, Burdick argued that because voting is a fundamental right, any laws restricting that right must be subject to strict scrutiny.60 A divided Court disagreed.61 Writing for the majority, Justice Rehnquist denied that any absolute right to vote ever existed.62 He reasoned that states have the right to regulate elections to ensure that they are “fair, honest, and orderly.”63 In effect, applying strict scrutiny to all voting rights cases would end voting regulation altogether, leading to chaos at the polls.64

Following this reasoning, Justice Rehnquist outlined a more flexible balancing test to determine when strict scrutiny should apply to cases involving the right to vote:

A court considering a challenge to a state election law must weigh “the character and magnitude of the asserted injury to the rights protected by the First and Fourteenth Amendments that the plaintiff seeks to vindicate” against “the precise interests put forward by the State as justifications for the burden imposed by its

57 Id.
58 Id.
59 Id.
60 See id. at 432.
61 See id. at 433.
62 See id.
63 Id.; see also U.S. CONST. art. 1, § 4 (“the times, places and manner of holding elections for Senators and Representatives, shall be prescribed in each state by the legislature thereof”).
64 See Burdick, 504 U.S. at 433.
rule,” taking into consideration “the extent to which those interests make it necessary to burden the plaintiff’s rights.”

In other words, courts must weigh the burden on the right to vote against the stated governmental interest in enacting the legislation. This, however, merely reiterated the rule elaborated in Anderson. The Court proceeded to consolidate this balancing act with the “severe restriction” test announced in Norman. Justice Rehnquist explained that if the burden on voting rights outweighs the governmental interest, the regulation is classified as a “severe” restriction, and strict scrutiny applies. On the other hand, if the governmental interest outweighs the burden on the right to vote, the law is presumptively constitutional.

In Burdick’s case, this new test meant the death of his claim. The Court concluded its opinion by stating that the Hawaii prohibition on write-in voting was “part of an electoral scheme that provides constitutionally sufficient ballot access.” Thus, the law did not violate the First or Fourteenth Amendment rights of Hawaii’s voters.

66 See Burdick, 504 U.S at 434; Norman, 502 U.S. at 289.
67 See 460 U.S. at 789.
68 Norman, 502 U.S. at 288-89.
69 Burdick, 504 U.S. at 434 (quoting Norman, 502 U.S. at 289) (“when [voting] rights are subjected to ‘severe’ restrictions, the regulation must be ‘narrowly drawn to advance a state interest of compelling importance’”).
70 Burdick, 504 U.S. at 434 (quoting Anderson, 460 U.S. at 788) (“If . . . the state law provision ‘imposes only ‘reasonable, nondiscriminatory restrictions’ upon the First and Fourteenth Amendment rights of voters, ‘the State's important regulatory interests are generally sufficient to justify’ the restrictions”).
71 Burdick, 504 U.S. at 441.
72 Id.
D. Common Cause/Georgia v. Billups:  
The Northern District of Georgia Gets It Right

Until 2006, no one had successfully challenged a photo ID provision under *Burdick*. However, that year, the case of *Common Cause/Georgia v. Billups* changed that. The plaintiffs in *Common Cause* included several nonprofit groups devoted to election reform, ethics in government, and helping minorities and the indigent. The plaintiffs asserted that Georgia’s photo ID law violated the Georgia Constitution, the Civil Rights Act of 1964, and Section II of the VRA, and was a poll tax in violation of the Twenty-fourth Amendment and the Equal Protection Clause. The U.S. District Court for the Northern District of Georgia agreed, granting the plaintiffs’ request for preliminary injunction to enjoin enforcement of the Georgia law.

As the Georgia Secretary of State informed the Georgia legislature and Governor before passage of an early version of the law, “the Act would open the door even wider to fraud in absentee balloting, while imposing a severe and unnecessary burden on the right to vote for hundreds of thousands of poor, elderly, and minority voters.” She further argued that, during her nine years as Secretary of State, there had been no documented cases of fraudulent voting by someone showing up at the polls pretending to be someone else.

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74 439 F. Supp. 2d at 1300-01.
75 *Id.* at 1297; see supra text accompanying notes 36-38 for a discussion of Georgia’s photo ID law.
77 *Id.* at 1304-05 (In 2005, the Georgia legislature passed the 2005 Photo-ID Act. In 2006, the 2006 Photo-ID Act repealed the earlier version, replacing it with identical photo ID requirements and a new provision requiring the Board of Elections to issue a voter-ID card to voters who present certain documents to verify their identity).
78 *Id.*
After describing the Secretary of State’s opposition to the Georgia law, the court considered the plaintiffs’ evidence of harm. It first referred to census data indicating that minorities and the elderly were far less likely than white voters to have sufficient identification to vote under the new law.\textsuperscript{79} Plaintiffs presented additional data from the Secretary of State indicating the undue burden the photo ID law imposes on the right to vote for minorities, the elderly, and the disabled.\textsuperscript{80} Plaintiffs also submitted several “would-be voter” declarations from people asserting that the Georgia law personally impacted them.\textsuperscript{81}

After a detailed recount of the evidence, the court turned to the merits of the case. It began by restating the heavy burden that the plaintiffs must overcome to prevail on a motion for preliminary injunction.\textsuperscript{82} The court observed that to grant a preliminary injunction against a law passed by elected officials would be to interfere with the democratic process.\textsuperscript{83} Therefore, the court expressed its reluctance to grant such a motion, and stated that it would do so “only upon a clear showing that the injunction before trial is definitely demanded by the Constitution.”\textsuperscript{84}

Defendants argued that the Georgia photo ID requirement is not a severe burden because it prevents no one from voting.\textsuperscript{85} They

\begin{footnotes}
\item[79] Id. at 1306.
\item[80] Id. at 1312 (“[N]early one-fourth of all registered voters aged sixty-five or over did not have a driver's license or Georgia ID card, and . . . 33.2 percent of African-American registered voters over age sixty-five did not have a license or Georgia ID. Nearly three-fourths of the voters who lacked driver's licenses or Georgia ID cards were on the active voter roll, meaning that they had voted during the last two election cycles).
\item[81] See id. at 1312-13. (Many of these people were disabled, making it difficult for them to travel to a registrar’s center to obtain the necessary identification; others lived far from a registrar’s center and simply had no way to get there).
\item[82] Id. at 1342-43.
\item[83] Id. at 1342.
\item[84] Id. (citing Bankwest, Inc. v. Baker, 324 F. Supp. 2d 1333, 1343 (N.D. Ga. 2004)).
\item[85] Common Cause, 439 F. Supp. 2d at 1345.
\end{footnotes}
contended that the Georgia law includes relaxed absentee voting requirements, allowing anyone without a photo ID to vote by absentee ballot. Moreover, the Georgia law allows voters to obtain a voter identification card without any fee.

Before addressing these arguments, the court began its analysis under the Burdick test. The character and magnitude of the injury, the district judge began, is significant because many voters who lack the required identification also lack the means to procure it. The evidence showed that many of the voters who the law harms are “elderly, infirm, or poor.” Such people often have no transportation to get to a voter registrar's office or have disabilities that prevent them from waiting in lengthy lines, and, therefore, cannot obtain even a free voter-identification card. The court next discounted the argument that any voters harmed by the law may simply cast absentee ballots. The state failed to publicize the new rules governing absentee ballots in time for the 2006 elections. The voting population of Georgia was largely unaware that it could cast absentee ballots, with no questions asked and without a photo ID. More importantly, many indigent voters do not have the literacy required to cast an absentee ballot, making this alternative unreasonable.

Likewise, casting a provisional ballot is an unrealistic alternative for many voters. Under the Georgia law, a person with insufficient identification may cast such a provisional ballot, which election officials will count if the person returns with a photo ID within forty-eight hours. Given the difficulty in obtaining a photo ID for many

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88 Common Cause, 439 F. Supp. 2d at 1345.
89 Id.
90 Id.
91 Id. at 1347-48.
92 Id.
93 See id. at 1348.
94 See id. at 1349.
95 Id.
voters, however, it is unrealistic to expect them to obtain the necessary identification and return to the polls within two days.\textsuperscript{96} Accordingly, the court found the injury to the right to vote to be “severe.”\textsuperscript{97}

Finally, the court analyzed the extent to which the State’s interest in preventing voter fraud makes it necessary to infringe upon the right to vote.\textsuperscript{98} As noted above, the Georgia Secretary of State had not seen a single case of voter fraud in her nine years in office.\textsuperscript{99} Although the defendants did produce some evidence of voter fraud, all evidence involved fraud in voter registration or absentee voting rather than in-person voting.\textsuperscript{100} The district judge criticized the Georgia legislature for drafting a law that applies only to in-person voting, rather than addressing the areas where fraud is most prevalent, namely absentee voting and voter registration.\textsuperscript{101}

Although Georgia’s attempt at providing free voter identification cards was commendable, the district court ultimately found that Georgia’s proffered interest, preventing in-person voter fraud, was insufficient to justify the severe burden it imposed on the indigent, minorities, and disabled.\textsuperscript{102} Georgia inadequately educated the public about the existence of free voter-ID’s until only two weeks before the 2006 primary elections, depriving voters of the chance to obtain them in time to vote.\textsuperscript{103} Accordingly, the court found that the Georgia law imposed an undue burden on the right to vote, in violation of the constitution.

\textsuperscript{96} \textit{Id.}
\textsuperscript{97} \textit{Id.} at 1349-50.
\textsuperscript{98} \textit{Id.} at 1350.
\textsuperscript{99} \textit{Id.}
\textsuperscript{100} \textit{Id.}
\textsuperscript{101} \textit{Id.}
\textsuperscript{102} \textit{Id.} at 1351.
\textsuperscript{103} \textit{Id.} (This seems to imply that had Georgia adequately publicized the opportunity for free voter identification cards, it could have avoided a constitutional violation).
The court rejected the plaintiffs’ alternative argument that the Georgia law constituted a constructive poll tax. The plaintiffs argued that, despite the availability of free voter-ID cards, many voters still had to incur the costs of transportation to a registration center. In dismissing this argument, the court reasoned that these costs already result from voter registration and in-person voting and are merely “tangential burdens.” Ultimately, however, the district court granted the plaintiffs’ preliminary injunction and enjoined enforcement of the Georgia statute for unduly burdening the right to vote.

II. THE CRAWFORD LITIGATION

A. The Majority Opinion

After the enactment of the Indiana Photo ID Law, several candidates for state office, voters, and organizations such as the Democratic Party and the NAACP sued various state election boards to enjoin enforcement of the law on the grounds that it unduly burdened the right to vote, in violation of the Fourteenth Amendment, Section II of the VRA, and the Indiana Constitution. The district court granted summary judgment for the defendants. On appeal to the Seventh Circuit, Judge Posner, writing for the majority in Crawford, disagreed with these plaintiffs.

He began his analysis by noting that the vast majority of Indiana voters have some form of government-issued photo identification, and that it is “exceedingly difficult to maneuver” in today’s society without

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104 See id. at 1354-55.
105 Id. at 1352.
106 Id. at 1354-55 (quoting Ind. Democratic Party v. Rokita, 458 F. Supp. 2d 775, 827 (S.D. Ind. 2006), aff’d, 472 F.3d 949 (7th Cir. 2007)).
107 Common Cause, 439 F. Supp. 2d at 1360.
108 Crawford v. Marion County Election Bd., 472 F.3d 949, 950 (7th Cir. 2007); Br. of Appellant at 1-2, Crawford, 472 F.3d 949 (7th Cir. 2007) (Nos. 06-2218, 06-2317), 2006 WL 1786073.
109 Id. at 950.
110 Id. at 954 (Judge Sykes joined Judge Posner in the majority opinion).
such identification. He also emphasized the relative ease with which most people may obtain the required photo identification, the fact that those who do not obtain such identification may cast a provisional ballot, and the fact that many registered voters do not vote anyway, all of which minimize the impact of the Photo ID Law.

Notwithstanding his clear disapproval of the plaintiffs’ argument, Judge Posner did concede the law harms many voters: “the benefits of voting to the individual voter are elusive” because of the relative unimportance of any single vote, and “even very slight costs in time or bother . . . deter many people from voting.” Most people who do not have the requisite identification, he wrote, will not go through the hassle of obtaining it just for the right to vote.

The majority proceeded to discuss the standing of the various plaintiffs. Judge Posner admitted that the vast majority of those harmed by the Photo ID Law will be indigent, and thus, more likely to vote Democratic. Consequently, he noted, the Photo ID Law harms the Democratic Party, satisfying the standing requirement. Finding standing for at least one of the plaintiffs, the majority declined to address the standing of the other plaintiffs.

Before even delving into the Burdick analysis, Judge Posner argued that strict scrutiny would be inappropriate in this case. First, he stated that the Photo ID Law does not actually prevent any of the plaintiffs from voting. He asserted that although “no doubt there are at least a few such people in Indiana” whom the law affects, the fact

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111 Id. at 950-51.
112 Id. at 951.
113 Id.
114 Id.
115 See id. at 951.
116 Id.
117 Id.
118 Id.
119 See id. at 952.
120 Id.

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that the law does not affect the plaintiffs themselves proves that it has a minimal impact.\footnote{See id. ("The fewer the people who will actually disfranchise themselves rather than go to the bother . . . the less of a showing the state need make to justify the law"); but see id. at 955 (Evans, J. dissenting) (there is some evidence that the Indiana Photo ID Law will make it difficult for up to four percent of Indiana’s eligible voters to vote).}

Next, he argued that strict scrutiny is inappropriate where the right to vote is on “both sides of the ledger.”\footnote{Id. at 952.} According to this argument, certain voting restrictions pit the right to vote against the state’s interest, such as a poll tax, where “on one side is the right to vote and on the other side the state’s interest in defraying the cost of elections . . . or in excluding poor people or in discouraging people who are black.”\footnote{Id.} Other restrictions do not pit the right to vote against the state’s interest.\footnote{See id.} Judge Posner included the Photo ID Law in this group of restrictions.\footnote{Id.} He argued that the purpose of the Photo ID Law is to prevent fraud.\footnote{Id.} Because fraud dilutes the votes of law-abiding voters, any measure that prevents fraud protects voting rights in some way.\footnote{Id. Thus, although this law harms the right to vote on one side, it protects the right to vote on the other.\footnote{See id. According to the majority, strict scrutiny should not apply to such laws.\footnote{Id. In other words, before the majority applied \textbf{Burdick}, it seemed the balance was already tipping in favor of the state.

At last, the majority applied the \textbf{Burdick} test, predictably coming to the result that strict scrutiny does not apply to the Photo ID Law.\footnote{See id. at 952-53.} First, the majority considered the burden the law places on voting
While the record from the district court provided evidence of this burden on many voters, the district judge found this evidence to be “totally unreliable” because of “methodological flaws.” The majority deferred to the district court’s finding, thus concluding that the burden on voting rights is slight.

The majority then examined the state’s interest in enacting the Photo ID Law. Judge Posner wrote that the main purpose of the Photo ID Law is to prevent fraud where a person “shows up at the polls claiming to be someone else.” Unless poll workers check photo identification of voters, Judge Posner argued, they have no way to prevent in-person fraud, making the law a necessity.

The majority then addressed several arguments by the plaintiffs. The plaintiffs first stated the current criminal penalties are a sufficient deterrent against vote fraud, and Indiana has prosecuted no one for impersonating a voter, proving the problem is too minor to warrant the Photo ID Law. The majority dismissed both arguments by asserting that the lack of prosecutions against fraudulent voters results from the difficulty of catching anyone in the act of vote fraud. Next, the majority noted that the inflated voter registration rolls of Indiana provide indirect evidence of voter fraud. Judge Posner acknowledged that this does not necessarily indicate the prevalence of fraud. However, he placed the burden of proof on the plaintiffs, stating, “plaintiffs have not shown that there are fewer impersonations than there are eligible voters whom the new law will prevent from

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131 Id. at 952.
132 Id.; see also Ind. Democratic Party v. Rokita, 458 F. Supp. 2d 775, 824-25 (S.D. Ind. 2006), aff’d, 472 F.3d 949 (7th Cir. 2007).
133 Crawford, 472 F.3d at 952.
134 Id. at 953.
135 Id.
136 Id.
137 Id.
138 See id.
139 Id.
140 Id.
Finally, he addressed the argument that the Photo ID Law is underinclusive because it does not require absentee voters to present ID’s. The majority dismissed this argument by describing the practical difficulties of requiring absentee voters to present photo identification.

The majority concluded by restating the principle that the states must retain the right to regulate elections. In support of this principle, Judge Posner revealed that he considers the burden imposed by the Photo ID Law “ordinary and widespread,” and that to deem such burdens severe would subject all electoral regulation to strict scrutiny. Finding that the burden is not severe, the majority affirmed the decision of the district court and upheld the Photo ID Law.

B. Judge Evans’ Dissent

Judge Evans wrote a sharp dissent against the majority opinion in Crawford. He began abruptly: “Let's not beat around the bush: The Indiana voter photo ID law is a not-too-thinly-veiled attempt to discourage election-day turnout by certain folks believed to skew Democratic.” According to the dissent, the majority misapplied Burdick, and should have applied strict scrutiny to the Photo ID Law.

Judge Evans explained that restrictions on the right to vote are poor policy. Considering that fewer people vote now than ever,

\textsuperscript{141} \textit{Id.} at 953-54.
\textsuperscript{142} \textit{Id.} at 954.
\textsuperscript{143} \textit{Id.}
\textsuperscript{144} \textit{Id.} (citing U.S. CONST. art. 1, § 4 (“the times, places and manner of holding elections for Senators and Representatives, shall be prescribed in each state by the legislature thereof; but the Congress may at any time by law make or alter such regulations, except as to the places of choosing Senators”)).
\textsuperscript{145} \textit{Crawford}, 472 F.3d at 954.
\textsuperscript{146} \textit{Id.}
\textsuperscript{147} \textit{Id.}
\textsuperscript{148} See \textit{id.}
\textsuperscript{149} \textit{Id.} at 955.
states should look to increase voter participation, not restrict it.\textsuperscript{150}

While Judge Posner placed a heavy burden on the plaintiffs, Judge Evans placed the burden on the state to prove that the Photo ID Law is sufficiently necessary to warrant the harm it causes to voting rights.\textsuperscript{151}

Where the majority focused on the plaintiffs’ rather weak evidence of harm to indigent voters, the dissent focused instead on the state’s failure to provide any evidence that voter fraud is a serious problem.\textsuperscript{152}

Moreover, the dissent observed that a preliminary report to the U.S. Election Assistance Commission has found little evidence of in-person voter fraud.\textsuperscript{153} Accordingly, the dissent found no adequate justification for the Photo ID Law, explaining that it is not “wise to use a sledgehammer to hit either a real or imaginary fly on a glass coffee table.”\textsuperscript{154}

After finding that Indiana had an insufficient interest in enacting the Photo ID Law, Judge Evans explained that the ambiguous language of the law creates a possibility for abuse.\textsuperscript{155} As discussed in Section I(B) above, the name on a voter’s photo ID must “conform” to the name in the voter’s registration record.\textsuperscript{156} Judge Evans asked whether “conformity” would include the case where “the last name of a newly married woman is on the ID but her maiden name is on the registration list,” or a “name is misspelled on one—Schmit versus Schmitt,” or “[i]f a ‘Terence’ appears on one and a shortened ‘Terry’ on the other.”\textsuperscript{157}

The potential for abuse of the Photo ID Law, however, is far less important than the main threat of the law: stripping the right to vote

\textsuperscript{150} Id.

\textsuperscript{151} See id.; see also supra text accompanying note 141.

\textsuperscript{152} See Crawford, 472 F.3d at 953-55 (the dissent emphasized that at oral argument, the defendants admitted that no one in the history of Indiana had been charged with violating that state’s voter fraud law).

\textsuperscript{153} Id. at 955.

\textsuperscript{154} Id. at 955, 56 (most problems in the U.S. voting system result from mismanagement, not electoral wrongdoing”).

\textsuperscript{155} Id.

\textsuperscript{156} Ind. Code § 3-5-2-40.5; see supra text accompanying notes 32-33.

\textsuperscript{157} Crawford, 472 F.3d at 955.
from some eligible voters. Judge Evans conceded that he does not know exactly how many voters would become unable to vote because of the Photo ID Law; however, he alluded to some evidence that this could apply to 4% of eligible voters in Indiana. This group of harmed voters includes mainly the poor, elderly, minorities, and disabled. Few in this group have any need for photo identification. Many cannot afford a car, and therefore have no need for a driver’s license. Likewise, many cannot afford to travel, and thus have no need for a passport. Although Indiana residents may obtain an Indiana ID card, this requires a certified birth certificate. Judge Evans noted that for a “poor, elderly person who lives in South Bend, but was born in Arkansas,” the difficulty of getting a certified copy of a birth certificate makes this option unrealistic. Although Judge Evans agreed that it is hard to maneuver in society without a photo ID, as Judge Posner observed, he recognized that the indigent, elderly, and disabled often lack maneuverability from the beginning.

As Judge Evans pointed out, not all “maneuverable” citizens are immune from the harm this law creates. In fact, on the day of Indiana’s primary election, Representative Julia Carson, up for reelection in an Indianapolis district, rushed to the polling place to be there when it opened in the morning. In her haste, she took only her congressional identification card. After a poll worker informed her that this ID was unacceptable, she went home, picked up the required

158 Id.
159 Id.
160 Id.
161 Id.
162 Id.
163 Id.
164 Id.
165 Id. at 956.
166 Id.
167 Id.
168 Id.
photo ID, and returned. Representative Carson had a vested interest in voting that day; most people, Judge Evans noted, would not have made the extra trip just to vote.

Finally, the dissent describes its interpretation of *Burdick*. While the majority seemed to remove strict scrutiny from the voting rights equation entirely, Judge Evans found that *Burdick* left some room for strict scrutiny. Strict scrutiny enters the analysis where the burden on voting rights is large and the state’s justification hollow. Applying that test to *Crawford*, Judge Evans concluded that strict scrutiny should apply, and the Photo ID Law imposes an undue burden on a specific segment of Indiana voters, violating the First and Fourteenth Amendments.

C. The Court Disagrees About a Petition for Rehearing

In April 2007, the Seventh Circuit denied the plaintiffs’ petition for rehearing en banc. Judge Wood, however, authored a dissent explaining her vote to grant the petition. The dissent worried that the *Crawford* decision left unresolved an extremely important question of law: “what level of scrutiny should courts use when evaluating mandatory voter identification laws?”

According to Judge Wood, the *Crawford* majority wrongly interpreted *Burdick* to mean that strict scrutiny never applies to

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169 *Id.* 170 *Id.* 171 *Id.* 172 *Id.;* see also *Burdick v. Takushi*, 504 U.S. 428, 434 (1992) (quoting *Norman v. Reed*, 502 U.S. 279, 289 (1992) (“when [voting] rights are subjected to ‘severe’ restrictions, the regulation must be ‘narrowly drawn to advance a state interest of compelling importance’”)). 173 *Crawford*, 472 F.3d at 956-57. 174 *Crawford v. Marion County Election Bd.*, Nos. 06-2218, 06-2317, 2007 U.S. App. LEXIS 7804, at *4 (7th Cir. Apr. 5, 2007). 175 *Id.* at *4 (Judges Rovner, Evans and Williams joined the dissent). 176 *Id.*
election cases. In contrast, the dissent interpreted *Burdick* to provide a threshold inquiry for courts to use in determining the appropriate level of scrutiny. As stated in *Burdick*, the intensity of the court’s inquiry into an election law depends on the extent to which it harms the First and Fourteenth Amendment rights of voters. If such a law imposes a “severe” burden on constitutional rights, it must be narrowly drawn and advance a compelling interest. By comparison, if such a law “imposes only ‘reasonable, nondiscriminatory restrictions’ upon the First and Fourteenth Amendment rights of voters, ‘the State's important regulatory interests are generally sufficient to justify’ the restrictions.” To determine if a burden is “severe,” and thus whether strict scrutiny applies, courts must apply a balancing test, weighing the character and magnitude of harm against the stated governmental interest in enacting the regulation.

The dissent began by comparing the burden of the Photo ID Law on the rights of eligible voters to that of a poll tax or literacy test. Strict voter identification laws can have a profound impact on voter turnout, with the most significant decreases in turnout among minority populations. The *Crawford* majority conceded that indigent voters are most likely to suffer the harm of the Photo ID Law and that such voters typically prefer Democratic candidates. Yet, the majority discounted these facts, reasoning that the Photo ID Law does not harm very many indigent voters; thus, the state’s interest outweighs the

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177 *Id.* at 4-5.
178 *Id.* at 5.
181 *Id.* at *6; *Burdick*, 504 U.S. at 434 (quoting Anderson v. Celebrezze, 460 U.S. 780, 788 (1983)).
183 *Id.* at *7.
185 *Crawford* v. Marion County Election Bd., 472 F.3d 949, 951 (7th Cir. 2007).
harm caused by the law.\footnote{See id., Crawford, 2007 U.S. App. LEXIS, at *7.} The dissent disagreed, and replied that even if the law disenfranchises only a tiny percentage of eligible voters, this is certainly enough to skew election results, given the narrow margins of many recent elections.\footnote{Crawford, 2007 U.S. App. LEXIS, at *7-8.}

Next, the dissent dismissed Judge Posner’s statement that “[t]he fewer people harmed by a law, the less total harm there is to balance against whatever benefits the law might confer.”\footnote{Id. at *8; see also Crawford, 472 F.3d at 952.} Voting is a fundamental \textit{individual} right, the dissent argued.\footnote{See Crawford, 2007 U.S. App. LEXIS, at *8.} Contrary to Judge Posner’s analysis, if a regulation deprives even a single voter of the right to vote, it can be severe.\footnote{Id. at *8-9.} The dissent imagined such a case: “a law preventing anyone named Natalia Burzynski from voting without showing 10 pieces of photo identification” would still be a severe injury to the hypothetical Ms. Burzynski.\footnote{Id.} Meanwhile, some regulations that affect very many people are perfectly reasonable, such as a law that prevents voters who register within 28 days of an election from voting in that election.\footnote{Id. at *9.} Accordingly, the dissent argued, the number of people a contested regulation affects is an unreasonable consideration.\footnote{Id.}

The dissent then addressed the state’s justification for the Photo ID Law. Whether the type of voter fraud where one person shows up at a polling place pretending to be another is an actual problem is a disputed question of fact.\footnote{Id. at *9.} That such a genuine issue of material fact exists calls into question the district court’s decision to grant summary
Furthermore, as the dissent observed, *Burdick* demands an inquiry into the “precise interests put forward by the State as justifications for the burden imposed.” The district court accepted Indiana’s claims of voter fraud as true without “any examination to see if they reflected reality.”

Finally, the dissent appeals to history, reminding the majority that in recent history, states have used voting regulations to discriminate against minorities. Within this context, the Photo ID Law will undoubtedly “harm an identifiable and often-marginalized group of voters to some undetermined degree.” While the majority was quick to dismiss the plaintiffs’ claims of discrimination, the dissent recommended that the court should be more careful before disregarding such an injury. Judge Wood concluded by noting that although it would be premature to decide whether the Photo ID Law would survive strict scrutiny, the court should have first determined whether strict scrutiny is the proper standard of review before making its decision.

### III. THE SEVENTH CIRCUIT MISAPPLIED *BURDICK* AND REACHED THE WRONG RESULT

From the tenor of the majority opinion in *Crawford*, it seems Judge Posner intuitively doubted that the Photo ID Law would cause any actual harm. This gut reaction is evident in his analysis. For

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195 See id.; FED. R. CIV. P. 56 (a court will grant summary judgment where the evidence shows “there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law”).


197 *Id.*

198 *Id.*

199 *Id.*

200 *Id.*

201 *Id.* at *10-11.

202 See *Crawford v. Marion County Election Bd.*, 472 F.3d 949, 950-52 (7th Cir. 2007).

203 See id.
instance, Judge Posner stated, “the new law’s requirement that the would-be voter present a government-issued photo ID . . . is no problem for people who have such a document, as most people do.”

He also wrote that few people will “actually disfranchise themselves rather than go to the bother” of obtaining an ID, revealing his doubts about the gravity of the plaintiffs’ claim. This sentence in particular reflects the majority’s refusal to believe that some people simply cannot afford the expense of acquiring a photo ID. Although ID cards are free in Indiana to people without a driver’s license, applicants for an ID card must provide certain verifying documents, such as a passport or certified copy of a birth certificate. These verifying documents, however, cost money. In fact, Indiana law demands a fee for a certified copy of a birth certificate. For indigent voters, it is not merely a matter of “going to the bother” to get an ID, but a matter of financial impossibility.

The majority then asked about “people who do not have photo IDs and must vote in person, if they vote at all.” It seems the majority is implying that this law causes no actual harm because many indigent voters do not vote anyway. However, that many registered voters choose not to exercise their right to vote does not lessen the burden that the Photo ID Law imposes on that right. In other words, before the Indiana legislature enacted this law, every registered voter had the option to vote. Now, for many eligible voters, that option no longer exists.

While the majority trivialized the impact of the Photo ID Law by reiterating that anyone without a valid photo ID may cast a provisional...
ballot, this is an unreasonable alternative for many voters.\textsuperscript{210} When voters cast provisional ballots, they must return to the polling place within ten days with a valid photo ID or an affidavit of indigency.\textsuperscript{211} Yet, Judge Posner noted how “[t]he benefits of voting to the individual voter are elusive.”\textsuperscript{212} Consequently, the cost of “following up” in time and effort alone often outweigh the minor benefit of voting, disfranchising many voters.\textsuperscript{213} Considering that many indigent voters have great difficulty in finding transportation to a polling place, requiring them to return within ten days may be prohibitive.\textsuperscript{214} Moreover, if a voter could not afford a photo ID before an election, she will not be able to afford one within ten days of an election.

Likewise, indigent voters often lack education.\textsuperscript{215} It is precisely this group that will find executing an affidavit most difficult. For many, the term “affidavit” alone might be so intimidating as to discourage them from casting a provisional ballot. Indeed, many will not know what an affidavit is, how to write one, or what one requires. In fact, one of the requirements of an affidavit is notarization. Many notaries charge for their services, presenting another obstacle between indigent voters and the right to vote.\textsuperscript{216} For these reasons, provisional ballots do not sufficiently ease the burden of the Photo ID Law on indigent voters.

During his \textit{Burdick} analysis, Judge Posner inappropriately incorporated a utilitarian balancing test into the inquiry, when he stated, “plaintiffs have not shown that there are fewer impersonations than there are eligible voters whom the new law will prevent from

\begin{footnotesize}
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\item \textsuperscript{210} \textit{Id}.
\item \textsuperscript{211} Ind. Code §§ 3-5-2-40.5, 3-10-1-7.2, 3-11-8-25.1.
\item \textsuperscript{212} \textit{Crawford}, 472 F.3d at 951.
\item \textsuperscript{213} \textit{See id}.
\item \textsuperscript{214} \textit{See Jane Rutherford, One Child, One Vote: Proxies for Parents}, 82 MINN. L. REV. 1463, 1521-22 (1998).
\item \textsuperscript{216} \textit{See Ind. Code § 33-42-8-1} (2007) (notaries may charge up to $2 per notarial act).
\end{itemize}
\end{footnotesize}
voting.”\textsuperscript{217} This is an impossible standard to impose upon the plaintiffs. Judge Posner described in detail the difficulty of proving voter fraud.\textsuperscript{218} Yet, for plaintiffs to prevail, he would require them to do just that, and prove that there are fewer impersonations than disfranchised voters.\textsuperscript{219}

Furthermore, the actual number of people harmed by the law is not such an important concern under \textit{Burdick}. According to Judge Posner’s argument, the plaintiffs’ claim failed largely because the Photo-ID Law harms only a small group of voters.\textsuperscript{220} It seems the majority misinterpreted the Supreme Court’s mandate to consider the “character and magnitude of the asserted injury.”\textsuperscript{221} By “magnitude,” it is doubtful the Supreme Court meant for courts to consider the mere number of individuals harmed by the law.\textsuperscript{222} Voting is a fundamental \textit{individual} right; thus, the more likely interpretation would be to consider the magnitude of the injury to each individual harmed.\textsuperscript{223} In this case, the Photo-ID Law creates an impassable barrier to the right to vote for many voters.\textsuperscript{224} Such a burden is undoubtedly severe to the individuals harmed.

Judge Posner cited \textit{Anderson} as support for his argument to consider the magnitude of the injury in terms of number of people affected.\textsuperscript{225} However, he ignored some very important language in that case that contradicts his interpretation. As Justice Stevens wrote, “[a]s our cases have held, it is especially difficult for the State to justify a restriction that limits political participation by an identifiable political

\textsuperscript{217} Crawford v. Marion County Election Bd., 472 F.3d 949, 953-54 (7th Cir. 2007).
\textsuperscript{218} Id. at 953.
\textsuperscript{219} Id. at 953-54.
\textsuperscript{220} Id.
\textsuperscript{221} Anderson v. Celebrezze, 460 U.S. 780, 789 (1983).
\textsuperscript{222} See Crawford v. Marion County Election Bd., Nos. 06-2218, 06-2317, 2007 U.S. App. LEXIS 7804, at *8 (7th Cir. Apr. 5, 2007).
\textsuperscript{223} See id. at *8-9; supra text accompanying notes 188-92.
\textsuperscript{224} See supra text accompanying notes 188-92.
\textsuperscript{225} See Crawford, 472 F.3d at 952.
group whose members share a particular viewpoint, associational preference, or economic status.” The Photo ID Law is just such a restriction. Although it might not harm a large percentage of Indiana’s population, the magnitude of the injury is large to the indigent, a group that shares the same economic status. Thus, Indiana should need an exceptionally noteworthy justification for the court to uphold the law. The Crawford majority ignored this, citing only the portion of the opinion that, out of context, supported its conclusion.

Even within this questionable utilitarian inquiry, the majority erred. Inexplicably, it placed the burden of proof on the plaintiffs to prove that the law harmed more people than it helped. Judge Posner wrote that the plaintiffs failed this test, deferring to the district court’s finding that the plaintiffs’ evidence of harm was too weak to consider. Even if the district court were correct in dismissing the plaintiffs’ evidence, however, the state provided an equally weak justification for the law, considering no cases of in-person voter fraud have been ever been filed in Indiana to date. Why the court dismissed the plaintiffs’ evidence, yet gave credence to the state’s equally fragile evidence, was never explained by the majority.

Judge Posner magnified the state’s interest in enacting the Photo ID Law, citing indirect evidence of voter fraud in Indiana’s inflated voter registration rolls, which contain a discrepancy between the number of registered voters listed and eligible voters. However, most of this inflation results from duplicate registrations. Duplicate registrations usually result from a voter moving or dying. In these

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226 Anderson, 460 U.S. at 792-93 (emphasis added).
227 See Crawford, 472 F.3d at 953-54.
228 See id. at 952.
229 Id. at 955; supra text accompanying notes 151-52.
230 Crawford, 472 F.3d at 953.
cases, voter fraud is not as great a concern. When people move, they rarely do so to commit vote fraud. Likewise, when registration lists contain the names of the deceased, photo ID requirements are unnecessary. The less restrictive means employed by most states would suffice to deter fraudulent use of a duplicate name. In fact, any of the forms of identification listed in HAVA would be sufficient to deter in-person voter fraud, and would not impose such an onerous burden on any group of voters. After all, how many people would go to the trouble of finding a duplicate name, then forging a utility bill or obtaining a fake credit card just to be able to cast a single fraudulent vote?

Furthermore, as Judge Wood reminded the majority, this entire proceeding involved the state’s motion for summary judgment. With such weak evidence on both sides, a genuine issue of material fact clearly existed, and summary judgment was inappropriate. Compare the grant of summary judgment in Crawford to the holding in Common Cause. Georgia law universally allows voters to submit absentee ballots, and provides for voter ID cards, without charge, to anyone in need of one. Yet, the Georgia court found that even these safeguards were insufficient, and the law was in clear violation of the constitution. Meanwhile, the Indiana Photo ID Law contains neither a liberal absentee ballot measure nor a provision for free voter ID cards.
cards. Given the harsher nature of the Indiana Photo ID Law, one would have expected the court to deny the defendants’ motion for summary judgment and allow the case to proceed. Nonetheless, where Georgia found a clear constitutional violation in a less burdensome law, the Seventh Circuit found that no reasonable jury could find for the plaintiffs, even construing all evidence in their favor. If the Seventh Circuit was correct, and no reasonable jury could have found a constitutional violation in *Crawford*, then the holding in *Common Cause* must have been quite unreasonable.

Perhaps the majority’s most creative argument was that whenever the right to vote lies on “both sides of the ledger,” strict scrutiny is inappropriate. As discussed in Section II(A) above, he explained that with a poll tax, the government interest, be it reducing election costs, limiting the right to vote to those who really care, or outright discrimination, is set squarely against the right to vote. In contrast, the stated purpose of the Photo ID Law is to reduce voting fraud, which dilutes the votes of lawful voters. Although the Photo ID Law harms voting rights on one hand, it arguably preserves them on the other.

However, this “ledger” analysis has poor policy implications. Any reasonably creative politician could manipulate this test to avoid strict scrutiny for any law. For example, even a direct poll tax, which courts have universally found unconstitutional, can be seen in some ways as being on both sides of the ledger. If a state declares that the purpose

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241 See supra text accompanying notes 31-35.
242 See, e.g., Bahl v. Royal Indem. Co., 115 F.3d 1283, 1289 (7th Cir. 1997) (On a motion for summary judgment, courts should “review the record in the light most favorable to the non-moving party and . . . draw all reasonable inferences in that party’s favor”).
243 *Crawford* v. Marion County Election Bd., 472 F.3d 949, 952 (7th Cir. 2007).
244 *Id.*; see supra text accompanying note 122.
245 *Crawford*, 472 F.3d at 952.
246 *Id.*
of a poll tax is to preserve the integrity of elections by ensuring that people who actually care about politics are the ones voting, than such a clearly unconstitutional measure would be on “both sides of the ledger.” Surely, the Crawford majority would not advocate anything less than strict scrutiny in this case. The potential for abuse of such a test is clear, and the majority should not have included this inquiry in its Burdick analysis.

Finally, Crawford leaves judges within the Seventh Circuit unsure whether, if ever, to apply strict scrutiny to cases involving electoral regulation. Under most circuits’ interpretation of Burdick, strict scrutiny applies to any severe regulation. To determine if a regulation is severe, courts weigh the harm to the right to vote against the state’s interest in enacting it. Yet, in the post-Crawford Seventh Circuit, it is unclear when any regulation would be severe. The majority complicated the Burdick test by introducing a complex utilitarian analysis and an unreasonable “ledger” test into the inquiry. This is likely to create confusion for courts in the future, as they grapple to reconcile the additional rules announced by the Seventh Circuit with Supreme Court precedent.

CONCLUSION: CRAWFORD’S LEGACY

To paraphrase Benjamin Franklin, only a fool would sacrifice an essential liberty for a small amount of security. Yet, by restricting the right to vote to fight the possibly imaginary problem of in-person

250 See supra text accompanying notes 217, 243.
251 See, e.g., Anderson v. Celebrezze, 460 U.S. 780, 792-93 (1983) (The Court is likely to overturn any law that limits the right to vote of an identifiable group that shares a “viewpoint, associational preference, or economic status.” What will a court do with a law that infringes on the rights of a very small group of people with similar economic status? To hold this law unconstitutional would obey Anderson but contradict Crawford).
voter fraud, the Indiana legislature has done just that. By upholding this law, the Seventh Circuit has sent the message to legislatures that they may enact discriminatory voting restrictions, as long as the restrictions harm only a small group of people.253

The Photo ID Law is the practical equivalent of a poll tax. Although Indiana provides photo ID’s free of charge, applicants often must pay for the verifying documents needed to acquire those ID’s.254 Although the resulting harm is less direct than with the poll taxes of the past, such photo ID measures often require voters to spend money to retain the right to vote. Those who cannot afford the expense, effectively lose that right.

To be sure, no court is likely to uphold a law that is discriminatory on its face. However, laws such as Indiana’s photo ID requirement discriminate in subtler ways. In Crawford, the Seventh Circuit has indicated that it will defer to states’ rights to regulate elections, and only in the most obvious cases will it overturn a discriminatory statute.255

Under the Crawford majority’s interpretation of Burdick, strict scrutiny review of voting regulations would become exceedingly rare, if it would ever be present at all.256 According to the majority, a regulation is “severe” only where it harms more people than it purports to help.257 With a law of general applicability, such as a poll tax, lawmakers could argue the law helps all voters by preserving electoral integrity, keeping away people who have less of an interest in voting.258 Such a measure harms only a minority of the population, while purporting to help a majority. Following Judge Posner’s analysis closely, strict scrutiny would not apply in this case. It is doubtful that

253 See supra text accompanying note 216.
254 See supra text accompanying notes 205-07.
255 See Crawford v. Marion County Election Bd., 472 F.3d 949, 954 (7th Cir. 2007).
256 See id. at 952-54; see also Crawford v. Marion County Election Bd., Nos. 06-2218, 06-2317, 2007 U.S. App. LEXIS 7804, at *4-5 (7th Cir. Apr. 5, 2007).
257 See Crawford, 472 F.3d at 953-54.
258 See supra text accompanying note 246.
the Seventh Circuit would allow this to happen with such a universally condemned measure. However, with a lesser-known and subtler discriminatory measure, the majority may defer to the states’ right to regulate elections. With this avenue open to them, political parties might be encouraged to think of creative ways to exclude groups that tend to vote against them.

Photo ID requirements are just one of these creative methods of political exclusion. Contrary to the Crawford majority’s assertions, they can exclude enough voters to skew election results. For example, one study found that eleven percent of U.S. citizens do not have photo identification. Among those without photo ID’s, most tend to be poor, minorities, or disabled. Meanwhile, this same group tends to vote Democratic. If a photo ID requirement disfranchises even a fraction of the eleven percent of the population, this could certainly distort election results. As Judge Wood explained, merely hundreds of votes have decided many recent elections. As the states within the Seventh Circuit realize that subtle discriminatory measures might produce real political gains, such measures will only rise in frequency.

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259 See Crawford, 472 F.3d at 954.
262 Crawford, 472 F.3d at 955.
263 Id. at 951.
SPEAK NO EVIL? GOVERNMENT EMPLOYEE SPEECH RIGHTS IN THE SEVENTH CIRCUIT IN LIGHT OF GARCETTI V. CEBALLOS

TRACY F. MENDONIDES


INTRODUCTION

A government employer, unlike its private-sector counterpart, must operate within the confines of the First and Fourteenth Amendments.1 While a private-sector employer can typically discipline or discharge an employee as determined by its business judgment,2 Title 42 § 1983 of the United States Code3 imposes liability


1 U.S. CONST. amend. I; U.S. CONST. amend. XIV, § 1.

2 See RESTATEMENT (SECOND) AGENCY § 442 (1958) (“Unless otherwise agreed, mutual promises by principal and agent to employ and serve create obligations to employ and serve which are terminable by either party”); see generally Deborah A. Ballam, Employment-at-Will: The Impending Death of a Doctrine, 37 AM. BUS. L.J. 653, 687 (2000).

3 42 U.S.C. § 1983 (2000); see also Rankin v. McPherson, 483 U.S. 378, 383-84 (1987) (internal citation omitted) (even if an government employee is “merely a probationary employee, and even if [the employee] could have been discharged for any reason, or for no reason at all, [the employee] may nonetheless be entitled to reinstatement if she was discharged for exercising her constitutional right to freedom of expression”).
on any government actor that disciplines or discharges a government employee in violation of the employee’s protected right to speech and association. This creates a unique tension in the government employment context between an employee’s right as a citizen to be free from governmental intrusion on personal liberties, and the government’s legitimate interest as an employer in limiting disruptive speech.

More than thirty-five years ago, the Supreme Court rejected the idea that citizens working for government agencies forfeit the ability to publicly criticize their employers. Therefore, if a public employee is speaking as a citizen and on a matter of public concern, a government employer may only restrict the speech as necessary to pursue its legitimate interest in operational efficiency. The Supreme

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4 The essential elements of a § 1983 claim are: 1) deprivation of a right secured by the constitution or laws of the United States 2) caused by an action taken under color of state law. Hernandez v. City of Goshen, Indiana, 324 F.3d 535, 537 (7th Cir. 2003) (citing Baker v. McCollan, 443 U.S. 137, 140 (1979)).


5 See Rankin, 483 U.S. at 384 (noting the “dual role of the public employer as a provider of public services and as a government entity operating under the constraints of the First Amendment”); Garcetti v. Ceballos, 126 S.Ct. 1951, 1966 (2006) (Souter, J. dissenting) (noting “the tension between individual and public interests in the speech, on the one hand, and the government’s interest in operating efficiently without distraction or embarrassment by talkative or headline-grabbing employees”).

6 Pickering v. Bd. of Educ. of Twp. High School Dist. 205, Will County, Ill., 391 U.S. 563, 568 (1968) (quoting Keyishian v. Bd. of Regents of State of N.Y., 385 U.S. 589, 606 (1967)) (“[T]he theory that public employment which may be denied altogether may be subjected to any conditions, regardless of how unreasonable, has been uniformly rejected”).

7 Garcetti, 126 S.Ct. at 1958 (“So long as employees are speaking as citizens about matters of public concern, they must face only those speech restrictions that are necessary for their employers to operate efficiently and effectively”). Because these are post hoc employment decisions, and not content-based restrictions on a specific category of speech, they are not subject to strict scrutiny. See United States v. Nat’l Treasury Employees Union, 513 U.S. 454, 466-67 (1995). Rather, a court need only determine whether the employer had a legitimate reason to discipline or discharge the employee based on the speech. Garcetti, 126 S. Ct. at 1958.
Court recently refined this standard in *Garcetti v. Ceballos*, holding that a government employee speaking pursuant to an official duty is precluded from claiming First Amendment protection for speech “as a citizen.”

Although the Seventh Circuit was the first United States Court of Appeals to apply this distinction, Judge Easterbrook, joined by Judges Williams and Rovner seemingly ignored the analytical guidelines expressed in *Garcetti*, as well as decades of Supreme Court precedent, and applied a truncated analysis to determine whether an employee was speaking “pursuant to [her] official duties” in *Mills v. City of Evansville*. If *Mills* is interpreted broadly, its holding unduly limits the circumstances under which a government employee can claim protection for speech propounded at the workplace and creates a disincentive for employee’s to report internal wrongdoing through the chain of command.

This Comment will contend that the Seventh Circuit’s opinion in *Mills* suggests an overly broad application of the standard announced in *Garcetti v. Ceballos*. Section I will recount Supreme Court precedent relating to the speech rights of government employees, including its recent decision in *Garcetti*. Section II will discuss the Seventh Circuit’s application of *Garcetti* in *Mills*. Section III will contrast the Seventh Circuit’s analysis with the application of *Garcetti* by other United States Courts of Appeals. Section IV will explore the repercussions of the Seventh Circuit’s decision in *Mills* for government employers and employees in the Seventh Circuit.

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9 Id. at 1955.
10 Id. at 1959-61.
12 Mills v. City of Evansville, Ind. (“Mills II”), 452 F.3d 646, 647 (7th Cir. 2006).
13 Id. at 646-48.
I. THE EVOLUTION OF GOVERNMENT EMPLOYEE SPEECH JURISPRUDENCE

Prior to 1967, the “unchallenged dogma” was that a government employer could condition employment on whatever terms it saw fit, including those that limited an employee’s freedom of speech and association, without fear of being held to have violated the Constitution. Although this line of reasoning was eventually rejected, First Amendment protection for statements by government employees has emerged slowly, and protection for statements in the government employment context has been the exception, not the rule.

A. Emergence from At-Will Employment Doctrine

In the absence of an employment contract to the contrary, employment relationships in the United States are presumed to be at-will. Under this doctrine, either the employer or employee may terminate the employment relationship at any time, for any reason, or

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14 Connick, 461 U.S. at 143-44 (quoting Justice Holmes in McAuliffe v. Mayor of New Bedford, 29 N.E. 517, 517 (1892)) (“[A policeman] may have a constitutional right to talk politics, but he has no constitutional right to be a policeman”), (internal citations omitted).


17 See generally James A. Sonne, Firing Thoreau: Conscience and At-will Employment, 9 U. Pa. J. Lab. & Emp. Law 235, 235 n.2 (citing Peter O. Hughes, Employment at Will, 10-259 LAB. AND EMPL. LAW (Matther Bender) § 259.04 n.5 (2007), available at LEXIS 10-259 Lab. and Emp. Law § 259.04), (“[e]mployment is presumed to be at will in . . . every state” except Montana).
for no reason at all. Although courts and legislatures have created exceptions to the at-will presumption, it nonetheless gives employers in the private-sector broad discretion to terminate their employees for any reason, including their speech, so long as the termination is not in violation of a contract or statute. While the at-will employment doctrine creates the illusion of equivalence, it has been criticized for creating a “vast disparity in power between employers and their

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19 Courts have applied implied covenants of good faith and fair dealing, implied contracts of continued employment. In addition, public policy exceptions prevent an employer from terminating an employee for certain protected activities, which have included: whistleblowing, exercising a statutory or constitutional right, refusing to commit an illegal act, and performance of a statutory duty. See generally Amy M. Carlson, States Are Eroding the At-Will Employment Doctrines: Will Pennsylvania Join the Crowd?, 42 Duq. L. Rev., 511, 513 (Spring 2004); Deborah A. Ballam, Employment-at-Will: The Impending Death of a Doctrine, 37 Am. Bus. L.J. 653, 687 (Summer 2000); Stephen D. Lichtenstein and Jonathan J. Darrow, Employment Termination For Employee Blogging: Number One Tech Trend for 2005 and Beyond, or A Recipe For Getting Dooced?, 2006 UCLA J.L. & Tech. 4, *7 (Fall 2006).

For statutory exceptions including state and federal whistleblower statutes see generally Peter O. Hughes, Employment at Will, 10-259 Lab. and Emp. L. (Matthew Bender) § 259.04 n.5 (2007), available at LEXIS 10-259 Lab. and Emp. Law § 259.04.

For whistleblower statutes in states in the Seventh Circuit see 20 Ill. Comp. Stat. 415/19 c.1 (West 2007); Ind. Code 36-1-8-8 (West 2007); Wis. Stat. § 230.80 (West 2007).


employees” by giving employers the ability to leverage the employment relationship to pressure employees to act or refrain from acting in ways frowned upon by the employer.

Prior to the Supreme Court’s decision in Keyishian v. Board of Regents of the State of New York in 1967, courts justified a variety of restrictions on speech and association in the employment context by borrowing from the underlying theory of at-will employment doctrine—that an employee has no legally cognizable right to be employed. Accordingly, a public employer could terminate an employee for “the utterance of any treasonable or seditious word or words or the doing of any treasonable or seditious act,” for belonging to a group deemed “subversive,” or for simply “advocat[ing]” subversive ideas. Courts reasoned that such restrictions on government employment did not chill freedom of speech or association because employees maintained the option of “retain[ing] their beliefs and associations and go[ing] elsewhere.” Therefore, the personal liberties of an employee forced to choose between government employment and his personal beliefs were limited only “in the remote sense that limitation is inherent in every choice.”

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24 385 U.S. 589 (1967)

25 Connick v. Myers, 461 U.S. 138, 143-44 (1983) (quoting Justice Holmes in McAuliffe v. Mayor of New Bedford, 29 N.E. 517, 517 (1892)) (“[A policeman] may have a constitutional right to talk politics, but he has no constitutional right to be a policeman”). (internal citations omitted).

26 Adler, 342 U.S. at 489 n.5.

27 Id. at 489 n.4.

28 Id. at 489 nn.3, 4.

29 Id. at 492.

B. Keyishian v. Board of Regents of the State of New York:  
The Supreme Court Recognizes the Rights of Government Employees as Citizens

By 1967, the courts of the nation had “uniformly rejected” the premise that personal liberties were not infringed by denying or placing conditions on government employment. According to the Supreme Court, the employer cannot “condition[ ] employment upon the surrender of constitutional rights which could not be abridged by direct government action.”

In Keyishian, the Court invalidated as unconstitutional a New York statute that refused employment to applicants associated with organizations deemed “subversive.” And, although the facts of that case arose in the refusal-to-hire context, the Court strongly suggested that it would also recognize First Amendment violations for wrongful terminations. A year later, the Court confirmed that notion in Pickering v. Board of Education of Township High School District 205, Will County, Illinois.

C. Pickering and its Progeny:  
Balancing the Interests of Government Employer and Employee

In a holding that changed the legal landscape for both government employers and employees, the Supreme Court recognized “it is essential that [public employees] be able to speak out freely on [matters of public concern] without fear of retaliatory dismissal.”

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31 Id.
32 Id.
33 Id. at 605-10.
34 Id. at 607, n.11 (“there can be no doubt that the repressive impact of discharge will be no less direct or substantial”).
36 Id.
Keyishian held that a government employer cannot refuse employment on a basis that infringes a citizen’s freedom of speech or association.37 The Pickering majority took that reasoning one step further by holding that a citizen who has entered into an employment relationship with the government does not relinquish his First Amendment rights as a condition of employment.38 Therefore, government employees cannot constitutionally be discharged for publicly criticizing their employers.39

Pickering recognized a retaliatory discharge claim by a public high school teacher who alleged he was terminated for writing a letter to the local newspaper that criticized a tax-increase proposal supported by the Board and the Superintendent of Schools.40 In his letter, Marvin L. Pickering accused the Board of channeling taxpayer funds towards athletics rather than to the programs and improvements that the Board had previously promised41 and accused the Superintendent of attempting to curb employee speech on the issue by threatening to impose discipline on teachers that openly opposed the new proposal.42

The reasoning in Pickering was twofold. In addition to vindicating the First Amendment rights of public employees as citizens, the Pickering majority also recognized the value of employee speech to the “free marketplace of ideas”43 protected by First Amendment jurisprudence, noting that government employees are often in a unique position to comment upon the efficient operation of their employers, and therefore, have valuable insight that should be made available to the community.44 As a result, allowing government employers to

37 Id. at 568.
38 Id.
39 See id. at 574 (“a[n] [employee’s] exercise of his right to speak on issues of public importance may not furnish the basis for his dismissal from public employment”).
40 Id. at 565-66.
41 Id. at 575-78 app. A.
42 Id. at 576 app. A.
44 Pickering, 391 U.S. at 571-72.
punish any employee speech that is critical or deemed “detrimental to the best interests” of the employer could have the effect of depriving the public of information needed to make well-informed decisions.\textsuperscript{45}

At the same time, however, the Court acknowledged the competing interest of “the State . . . as an employer in regulating [the] speech [of its employees].”\textsuperscript{46} Therefore, \textit{Pickering} holds that courts are charged with the responsibility of determining “a balance between the interests of the [employee], as a citizen, in commenting upon matters of public concern and the interest of the State, as an employer, in promoting the efficiency of the public services it performs through its employees.”\textsuperscript{47}

Under \textit{Pickering}, the initial stage of analysis requires a court to determine whether the employee’s statements were made “as a citizen . . . upon matters of public concern.”\textsuperscript{48} If they were, then the statements are protected.\textsuperscript{49} Nonetheless a government employer may constitutionally discipline or discharge an employee even for protected statements if it can show its interests as an employer “in promoting the efficiency of the public services it performs” outweigh “the interests of the [employee], as a citizen, in [making the statements]” under the second, balancing stage of \textit{Pickering} analysis.\textsuperscript{50}

While the Supreme Court recognized the “enormous variety of fact situations” that may lead to First Amendment claims under \textit{Pickering} and declined to lay down a bright-line rule for determining legitimate government interests in regulating employee speech,\textsuperscript{51} it suggested that relevant considerations under the second-stage of analysis include: whether the statement interferes with the employer’s ability to maintain discipline or harmony among its workers, whether it has a detrimental impact on close working relationships for which

\textsuperscript{45} \textit{Id.}
\textsuperscript{46} \textit{Id.}
\textsuperscript{47} \textit{Id.} at 568.
\textsuperscript{48} \textit{See Garcetti v. Ceballos, 126 S.Ct. 1951, 1958 (2006).}
\textsuperscript{49} \textit{Pickering, 391 U.S. at 568.}
\textsuperscript{50} \textit{Id.}
\textsuperscript{51} \textit{Id. at 569}
“personal loyalty and confidence” are reasonably required, or whether the statement impedes the performance of the employee’s daily duties or interferes with the regular operation of the employer.52 The Court further suggested that the government may have greater, even absolute, ability to control the speech of high-level employees, depending on the nature of their position.53

*Pickering* was a victory for government employees wishing to engage in civic discussion publicly. Yet even though the holding clearly protected speech propounded to the public, the opinion left open the issue of what types of statements could form the basis for viable First Amendment retaliation claims beyond those made in a public forum.

Ten years later, the Supreme Court resolved any doubts regarding whether First Amendment protection for government employees extended only to statements made to the public.54 In *Givhan v. Western Line Consolidated School District*, the Court held that First Amendment protection extends both to statements made to the public as well as to statements at the workplace.55 As such, a school teacher’s private complaints to the school principal about what she perceived to be discriminatory employment practices were held to constitute protected speech.56

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53 *Pickering*, 391 U.S. at 570 n.3; *see also* Connick, 461 U.S. at 151-52 (1983) (again noting, “when close working relationships are essential to fulfilling public responsibilities, a wide degree of deference to the employer’s judgment is appropriate”).


55 *Id.*

56 *Id.* at 414; *see also* Rankin, 483 U.S. at 386-88 (holding First Amendment protection extended to private statements made by an employee to a co-worker regarding the attempted assassination of then President, Ronald Reagan. Therefore, the plaintiff-employee’s statement could not form the basis for discharge absent a showing that the statement interfered with the “efficient functioning of the office”).
D. The Modern Standard:
Striking the Balance in Favor of the Employer

Despite the protection offered to public employees by *Pickering* and *Givhan*, the Supreme Court has recognized that not all employee speech relating to the internal operations of a government employer is protected by the First Amendment as a “matter of public concern.”\(^{57}\) Although “speech on public issues occupies the ‘highest rung of the hierarchy of First Amendment values,’ and is entitled to special protection,”\(^{58}\) Supreme Court precedent makes clear that a government employer is, nonetheless, an employer, and as such retains broad discretion to discipline an employee where the employee is not speaking as a citizen on a matter of public concern.\(^{59}\)

1. *Connick v. Myers*

By 1983, it was well-established that the rights of government employees could not be abridged as a condition of employment.\(^{60}\) But, the Supreme Court also recognized that “government offices could not function if every employment decision became a constitutional matter.”\(^{61}\) Therefore, the Supreme Court in *Connick* held:

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\(^{58}\) *Id.* at 145 (quoting N.A.A.C.P. v. Claiborne Hardware Co., 458 U.S. 886, 913 (1982)).

\(^{59}\) *Connick*, 461 U.S. at 146 (when employee expression “cannot be fairly considered as relating to any matter of political, social, or other concern to the community, government officials should enjoy wide latitude in managing their offices”); *Rankin*, 483 U.S. at 384 (“public employers are employers, concerned with the efficient function of their operations; review of every personnel decision made by a public employer could, in the long run, hamper the performance of public functions”).


\(^{61}\) *Connick*, 461 U.S. at 143.
[W]hen a public employee speaks not as a citizen upon matters of public concern, but instead as an employee upon matters only of personal interest, absent the most unusual circumstances, a federal court is not the appropriate forum in which to review the wisdom of a personnel decision taken by a public agency allegedly in reaction to the employee’s behavior.62

Connick excludes statements that are essentially an employee’s personal grievances from protection as “matters of public concern.”63 By doing so, the Court maintained protection of employee speech on matters of value to the public while at the same time protecting the government from employees seeking to “constitutionalize the employee grievance” by turning any adverse employment decision into a constitutional claim by asserting that their grievances address matters of public concern.64

Sheila Myers, the plaintiff in Connick, was an Assistant District Attorney who vocally opposed her proposed transfer to another department.65 She was discharged after distributing a questionnaire to her co-workers that created what was described by Myers’ supervisor as, a “mini-insurrection” within the office.66 Among other things, the questionnaire asked co-workers whether they believed the office procedure regarding transfers was fair, whether they thought there was an active “rumor mill” in the office, and whether they had confidence in and would rely on the work of five individually named supervisors.67

Myers argued that the questionnaire was protected under the First Amendment because it addressed matters of public concern.68

62 Id. at 147 (citing Bishop v. Wood, 426 U.S. 341, 349-50 (1976)).
63 Connick, 461 U.S. at 141.
64 Id. at 154.
65 Id. at 140-41.
66 Id. at 140.
67 Id. at 257 app. A.
68 Id. at 141.
However, the Supreme Court rejected the idea that any matter relating the internal operations of a government employer—down to office procedure regarding transfers, and whether individual employees have confidence in their supervisors—is a matter of public concern simply because it may tangentially relate to governmental efficiency.69

The Court held whether an employee’s speech addresses a matter of public concern is a fact-intensive inquiry to be determined by the “content, form and context” of the statement “as revealed by the whole record.”70 And, an issue such as employee confidence in supervisors, that is “not otherwise of public concern” does not rise to that level simply because “its subject matter . . . might be of general interest” if communicated to the public.71

In addition to limiting what constitutes a matter of public concern Connick gave further judicial deference to the business judgment of government employers by suggesting that the government has broad discretion to discipline its employees contemporaneously based on the predicted results of the speech.72 Moreover, the Court rejected Myers’ assertion that the government was required to justify her termination by showing that the questionnaire “substantially interfered” with the operations of the office.73 Rather, the state’s burden in justifying a

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69 Id. at 149 (“To presume that all matters which transpire within a government office are of public concern would mean that virtually every remark—and certainly every criticism directed at a public official—would plant the seed of a constitutional case”).

70 Id. at 147-48.

71 Id. at 148 n.8. However, the Court ultimately held that Myers’ question regarding whether employees felt pressured to work on political campaigns was a matter of public concern; therefore, Pickering balancing was required. Id. at 149.

72 Id. (a government employer is not required to “allow events to unfold to the extent that the disruption of the office and the destruction of working relationships is manifest before taking action”). But, importantly, the Court cautioned that a “stronger showing” of disruption or potential disruption may be required where the employee’s speech “more substantially involved matters of public concern [than Myers’ questionnaire].” Id.

73 Id. at 149.
particular discharge will vary depending on the nature of the employee’s expression.\textsuperscript{74}

2. Post-Connick decisions

After \textit{Connick}, the United States Courts of Appeals applied various methods of analysis to determine whether a government employee was speaking “as a citizen upon matters of public concern [or] instead as an employee upon matters of personal interest.”\textsuperscript{75} Many circuits held that whether an employee was speaking as a citizen on a matter of public concern was intent-based.\textsuperscript{76} In those circuits, the question was: Was the employee speaking primarily as a concerned citizen, or as an employee merely interested in internal procedure?\textsuperscript{77} Under this method of analysis, if an employee was motivated by a personal grievance, the speech was precluded from protection as a matter of public concern.\textsuperscript{78}

The Seventh Circuit held that intent was a factor, but not the most important factor.\textsuperscript{79} In the Seventh Circuit, whether the speech constituted a matter of public concern was determined by the “content, form, and context” of the given statement, with content being the most important factor.\textsuperscript{80} Therefore, the Seventh Circuit rejected the idea that speech on a matter of public concern lost its protected status if it was expounded only for personal reasons, rather than a desire to “air the

\textsuperscript{74} Id. at 150.
\textsuperscript{75} Id. at 147.
\textsuperscript{76} See Saulpaugh v. Monroe Cnty. Hosp., 4 F.3d 134, 143 (2d Cir. 1993); \textit{David v. City of Denver}, 101 F.3d 1344, 1356 (10th Cir. 1996); \textit{Morgan v. Ford}, 6 F.3d 750, 755 (11th Cir. 1993).
\textsuperscript{77} See \textit{Morgan}, 6 F.3d at 754.
\textsuperscript{78} See Saulpaugh, 4 F.3d 134 at 143; \textit{David}, 101 F.3d at 1356; \textit{Morgan}, 6 F.3d at 755.
\textsuperscript{79} Wright v. Ill. Dep’t of Children and Family Servs., 40 F.3d 1492 (7th Cir. 1994).
\textsuperscript{80} Id.
merits of the issue." Accordingly, if the content of the speech addressed a matter of public concern, the speech was protected, irrespective of the employee’s motive for engaging in the speech.

3. Garcetti v. Ceballos

In 2006, the Supreme Court clarified the Pickering/Connick test but imposed an additional hurdle upon government employees by bifurcating the initial stage of analysis. Under Garcetti, an employee must be speaking both as a citizen and on a matter of public concern before reaching the balancing stage of Pickering. Therefore, if a public employee cannot establish that he was speaking as a citizen, and not as an employee “pursuant to . . . official duties” the government is free to punish the speech at its discretion, and courts will not examine the government interest in regulating the speech, even if the speech addresses a matter of public concern.

Richard Ceballos, the plaintiff in Garcetti, was an Assistant District Attorney who claimed his First Amendment rights were violated when he suffered a series of allegedly adverse employment actions stemming from a disposition memorandum he wrote to his supervisor detailing what he believed were serious misrepresentations

81 Wainscott v. Henry, 315 F.3d 844, 850 (7th Cir. 2003) (“Animosity in a supervisor-subordinate relationship cannot be the sole basis for characterizing an unflattering statement as a personal grievance” and thereby excluding the statement from protection); Smith v. Fruin, 28 F.3d 646, 652 (7th Cir. 1994) (“the content of some remarks may life the speech to the level of public concern even if the employee’s reasons for speaking out are entirely self-interested”).
82 Wainscott, 315 F.3d at 850; Smith, 28 F.3d at 652.
84 Id. at 1961 (“When an employee speaks as a citizen addressing a matter of public concern, they First Amendment requires a delicate balancing of the competing interests surrounding the speech and its consequences. When, however, the employee is simply performing his or her job duties, there is no warrant for a similar degree of scrutiny”).
85 Id. at 1960.
86 Id. at 1961.
in an affidavit used to obtain a search warrant in a pending case.\textsuperscript{87} Ceballos was alerted to the potential inaccuracies in early 2000 by a defense lawyer.\textsuperscript{88} Based on a personal investigation, Ceballos believed that the warrant affiant, a deputy sheriff, “at least grossly misrepresented the facts.”\textsuperscript{89}

Following a meeting with his immediate supervisor and the Head Deputy District Attorney regarding the inaccuracies, Ceballos completed a disposition memo in which he detailed the inconsistencies and recommended that the pending case be dismissed.\textsuperscript{90} Ceballos’ supervisor directed him to revise the memo to make it “less accusatory” of the warrant affiant.\textsuperscript{91} After Ceballos wrote a second disposition memo again recommending that the case be dismissed, he was “sharply criticiz[ed]” for his handling of the case during a meeting with his superiors.\textsuperscript{92} Following his supervisor’s decision to proceed with the case, Ceballos alleged that he was subject to a series of retaliatory employment actions including reassignment from his calendar deputy position to a trial deputy position, transfer to another courthouse, and denial of a promotion.\textsuperscript{93} The Supreme Court held that the First Amendment did not protect Ceballos from discipline for his statements in the disposition because those statements were made “pursuant to [his] official duties” and, therefore, could be controlled at his employer’s discretion.

\textit{Garcetti} holds that speech espoused by a public employee pursuant to an employment duty is precluded from protection as speech “as a citizen,” even if the employee was motivated by his

\begin{itemize}
  \item \textsuperscript{87} Id. at 1955-56.
  \item \textsuperscript{88} \textit{Ceballos v. Garcetti}, 361 F.3d 1168, 1170 (9th Cir. 2004), overruled by 126 S. Ct. at 1960.
  \item \textsuperscript{89} \textit{Ceballos}, 361 F.3d at 1171.
  \item \textsuperscript{90} Id.
  \item \textsuperscript{91} Id.
  \item \textsuperscript{92} \textit{Garcetti}, 126 S.Ct. at 1956.
  \item \textsuperscript{93} Id.
\end{itemize}
concerns as a citizen. Where an employee is speaking pursuant to his official duties, he is not speaking as a citizen, and his speech does not rise to that level by virtue of its subject matter, or his intent in forwarding the statement.

In justifying this limit, the Court reasoned that “[r]estricting speech that owes its existence to a public employee’s professional responsibilities does not infringe any liberties the employee might have enjoyed as a private citizen. Rather, it simply reflects the exercise of employer control over what the employer has itself commissioned or created.”

Garrett made clear that statements by government employees are not automatically precluded from First Amendment protection simply because they are made at the workplace, or because they concern the subject-matter of employment. The Supreme Court also rejected the idea “that employers can restrict employees’ rights by creating excessively broad job descriptions.” But outside of these very general guidelines, the Supreme Court did not specify a method of analysis for determining when statements are made “pursuant to [an employee’s] official duties” other than holding that the “proper inquiry is a practical one” into the “scope of the employee’s professional duties.” Nonetheless, the Seventh Circuit seems to have ignored even these limited guidelines in Mills v. City of Evansville.

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94 See id. at 126 S.Ct. at 1960 (“Ceballos wrote his disposition memo because that is part of what he, as a calendar deputy, was employed to do. It is immaterial whether he experienced some personal gratification from writing the memo; his First Amendment rights do not depend on his job satisfaction”).

95 See id. at 126 S.Ct. at 1956-57 (In holding that an employee must be speaking both as a citizen, and on a matter of public concern, the Supreme Court rejected the Ninth Circuit’s reasoning that because the content of the disposition memo, was “inherently . . . of public concern” and not of personal interest, Ceballos’ memo was protectable as speech “as a citizen”).

96 Id. at 1960.

97 Id. at 1959.

98 Id. at 1961.

99 Id. at 1962.

100 (“Mills II”), 452 F.3d 646, 646-48 (7th Cir. 2006).
II. MILLS V. CITY OF EVANSVILLE

Mills was decided approximately three weeks after Garcetti issued, \(^{101}\) making the Seventh Circuit the first United States Court of Appeals to apply the Supreme Court decision to determine when an employee’s statements are made “pursuant to [an] official duty.” But rather than defining a method of analysis, Judges Easterbrook, Williams, and Rovner ignored Garcetti’s guidelines by failing to address the scope of Mills’ job responsibilities and instead summarily held that the Brenda Mills’ statements were precluded from First Amendment protection without articulating a reasoned basis for their decision. \(^{102}\)

The Seventh Circuit’s truncated analysis is flawed for three reasons. First, the Seventh Circuit unnecessarily extended Garcetti beyond the internal document scenario addressed in that case. Second, even assuming the Seventh Circuit was justified in extending Garcetti, the Court ignored the analytical guidelines articulated by the Supreme Court and failed to provide a reasoned basis for that extension. Third, by extending Garcetti without identifying the facts on which it based its decision, the Seventh Circuit suggested a confusingly broad rule that is unduly restrictive and benefits neither government employees nor their employers.

A. Facts of the Case

Brenda Mills worked as a police officer for the City of Evansville, Indiana for twenty-seven years. \(^{103}\) For the last six years of her employment, her duties included supervising the “Crime Prevention

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\(^{101}\) Id. at 646.

\(^{102}\) See id. at 648 (Judge Easterbrook dedicates only one paragraph of a one and a half page opinion to the issue of whether Brenda Mills was speaking pursuant to her official duties).

\(^{103}\) Mills v. City of Evansville, Ind. (“Mills I”), No. 3:03CV00183-JDT-WGH, 2005 WL 1939917, at *1 (S.D. Ind. June 28, 2005), overruled by 452 F.3d 646, 646-48 (7th Cir. 2006).
Officers” assigned throughout the City’s West Sector. In Mills’ words, these officers were: “part of the patrol division . . . assigned throughout the city to, in part, interact with neighborhood associations in an effort to reduce the incidence of crime, foster good community relationships and deal with quality of life issues.”

Sometime prior to January 2002, the Evansville Chief of Police proposed a re-structuring plan aimed at dealing with a manpower shortage within the city’s Police Department that would reduce the number of Crime Prevention Officers on Mills’ shift by one. The Chief formally announced his plan at a meeting of upper level staff members on January 18, 2002, which Mills attended in lieu of her supervisor. The meeting was on departmental premises, and Mills was on-duty and in uniform both during and after the meeting.

After the meeting ended, the Chief approached Mills and initiated a conversation in the public lobby of the Police Station. The Chief informed Mills that he was concerned because he had heard that some of the Crime Prevention Officers had attended a neighborhood meeting where they informed neighborhood association members that they could contact the Mayor in order to prevent the removal of the Crime Prevention Officer on Mills’ shift. Other of Mills’ superiors were present during the conversation, although whether the conversation could be overheard by others passing through the lobby area was disputed. During the conversation, Mills expressed her opinion to

104 Mills I, 2005 WL 1939917, at *1.
105 Id.; Mills v. City of Evansville, Ind. (“Mills II”), 452 F.3d 646, 647 (7th Cir. 2006).
106 Mills II, 452 F.3d at 647.
108 Mills II, 452 F.3d at 647.
109 Mills I, 2005 WL 1939917, at *1. According to Mills, the Chief approached her and said, “If the [Crime Prevention Officers] want a problem, they can have it.” Br. of Pl.-Appellant at *5, Mills v. City of Evansville, Ind., No. 05-3207 (7th Cir. Oct. 31, 2005).
110 Mills II at *1.
111 Br. of Pl.-Appellant at *7, Mills v. City of Evansville, Ind., No. 05-3207 (7th Cir. Oct. 31, 2005).
the Chief and the other superior officers present “that the plan would not work, that community organizations would not let the change happen, and that sooner or later [the Chief] would have to restore the old personnel assignment policies.”112

Twelve days after Mills made the statements in the lobby, Captain Brad Hill, who had joined the January 18th conversation between Mills and her superiors at some point in the middle, put a “Summary of Counseling” in Mills’ file that “disapproved [of] her attitude at the meeting, her choice of time and place for presenting her views, and her failure to work through the chain of command.”113 Mills agreed in her response to the Summary that the time and place were inappropriate, but indicated she felt she was left “with no recourse except to respond” because the Chief continued to press her to state her opinion.114

Shortly over a month after the “Summary of Counseling” was put in Mills’ file, Mills was removed from her supervisory position on the first shift and transferred to patrol duties on the West Sector third shift.115 About six weeks later, on April 24, 2002, Mills was informed that she was going to be transferred again—this time, to patrol duties on the South Sector.116 After Mills objected to the re-assignment, she was transferred to the Record Room.117

Mills subsequently sued under 42 U.S.C. § 1983, claiming that the City of Evansville and certain officers in their individual capacities violated the United States Constitution by unlawfully retaliating against her because of her speech.118 The Southern District of Indiana granted summary judgment for Defendants, holding that although Mills’ statements after the meeting were protected, the police department’s “interest in efficient management of its operations”

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112 Mills II, 452 F.3d at 647.
113 Id.; Mills I, 2005 WL 1939917, at *2.
114 Mills I, 2005 WL 1939917, at *2.
115 Id.
116 Id.
117 Id.
118 Mills II, 452 F.3d at 647.
outweighed her First Amendment interests in the speech. Mills then appealed to the United States Court of Appeals for the Seventh Circuit.

In a one paragraph rationale, the Seventh Circuit reversed the district court, holding that Mills’ statements were not protected under Garcetti because:

Mills was on duty, in uniform, and engaged in discussion with her superiors, all of whom had just emerged from [the] Chief’s brief[ing]. She spoke in her capacity as a public employee contributing to the formation and execution of official policy. Under Garcetti her employer could draw inferences from her statements about whether she would not zealously implement the Chief’s plans or try to undermine them; when the department drew the latter inference it was free to act accordingly.

B. Mills unnecessarily extends Garcetti.

Although the Seventh Circuit likely reached the right result, it seemingly did so for the wrong reasons. Mills improperly implies that all job-related statements are precluded from First Amendment protection under Garcetti. But, Garcetti’s holding is not so broad. Specifically, insofar as Mills implies that Brenda Mills was speaking pursuant to her official duties because her speech was propounded at the workplace and pertains to the subject matter of her employment: that reasoning was specifically rejected by Garcetti. Moreover, the Seventh Circuit could have reached the same result by either articulating a factual basis for holding that Mills was speaking pursuant to an employment duty, or by holding that her employer’s interest in maintaining the chain of command outweighed her First Amendment interests.

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119 Id.
120 Id. at 648.
Amendment interest in forwarding statements that were critical of the Chief of Police.

1. *Garcetti* should be limited to internal communications that can be properly characterized as the employer’s speech.

The facts and reasoning of the *Garcetti* opinion support a narrow reading that limits its holding to internal documents and other speech compelled by an employment duty. Underlying the *Garcetti* opinion is deference to the idea that government employers, “like private employers, need a significant degree of control over their employees’ words and actions; without it, there would be little chance for the efficient provision of public services.”122 But although the Supreme Court clearly intended to preclude government employees from stating First Amendment retaliation claims for statements properly encompassed within their official duties, the Court nonetheless implied limits on its holding.

First, *Garcetti* was a fact-specific case that dealt with a disposition memo Ceballos was unquestionably required to write. In determining that Ceballos’ disposition memo was written “pursuant to [his] employment duties,”123 the Supreme Court repeatedly stressed that Ceballos had an employment duty to write the memo. The Court explained that he was speaking “as a prosecutor fulfilling a responsibility to advise his supervisor about how best to proceed with a pending case”;124 that “[he] wrote his disposition memo because that is part of what he, as a calendar deputy was employed to do”;125 that the memo “owe[d] its existence” to his “professional responsibilities”;126 and Ceballos was “simply performing his . . . job

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122 *Id.* at 1958. Moreover, the Court’s reasoning continues to support the idea that “managerial discretion” should not be “displace[d] . . . by judicial supervision.” *Id.* at 1961.
123 *Id.* at 1957.
124 *Id.* at 1959.
125 *Id.* at 1960.
126 *Id.*
duties.” The Court also referred to the disposition memo as “work product.” Thus:

Ceballos did not act as a citizen when he went about conducting his daily professional activities, such as supervising attorneys, investigating charges, and preparing filings. In the same way he did not speak as a citizen by writing a memo that addressed the proper disposition of a pending criminal case. When he went to work and performed the tasks he was paid to perform, Ceballos acted as a government employee.

In contrast, Mills’ statements are not as clearly encompassed in her job responsibilities as the disposition memo in Garcetti. Mills made statements after the meeting she was required to attend had ended. And although the Seventh Circuit noted that she was “on duty, in uniform, and engaged in discussion with her superiors,” Judge Easterbrook’s opinion fails to indicate why these facts establish, as a matter of law, that Mills was speaking pursuant to her official duties.

Second, the reasoning of Garcetti does not support a broad application. Garcetti reflects the ability of the government employer to control speech, like Ceballos’ disposition memo, that is cloaked as the speech of the employer. Such restrictions on documents “under the control, and vested with the authority, of [the] employer” do not

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127 Id. at 1961.
128 Id. at 1960.
129 Id.
130 Mills v. City of Evansville, Ind. ("Mills II"), 452 F.3d 646, 647 (7th Cir. 2006).
131 Id. at 648.
132 See Garcetti, 126 S.Ct at 1960 (“Restricting speech that owes its existence to a public employee’s professional responsibilities” simply reflects the ability of the employer to “control . . . what the employer has itself commissioned or created”).
133 Rice-Lamar v. City of Fort Lauderdale, Fla., 232 F.3d 836, 842 (11th Cir. 2000)
violate the First Amendment because this type of speech is not properly categorized as employee speech at all. Accordingly, there is no “relevant analogue” to speech by citizens who are not government employees, and a government employer may limit and control such statements at its discretion.

And, on an intuitive level, this type of limited application of Garcetti does not elicit the same kind of negative gut-reaction as a broader application because it makes sense that the government should be given discretion to control its own speech. Indeed, the Seventh Circuit has employed similar reasoning in justifying limits on public school teachers’ speech in the classroom because “the school system does not ‘regulate’ teachers’ speech as much as it hires that speech.”

Moreover, while Garcetti recognizes the broad discretion of the government employer to control its “official communications,” nothing in Garcetti suggests that the Supreme Court intended to overrule Givhan by applying an overly broad interpretation of “official duties.” Indeed, Garcetti cites Givhan as good law.

Lastly, it should be noted that the Court never questioned the ability of Pickering balancing to protect a government employer’s legitimate interest in disciplining and discharging employees for speech that interferes with the efficiency of governmental operations. Because the second stage of Pickering analysis already

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134 *Id.*
136 *Id.*
139 *Id.* at 1959.
140 This is particularly true in the Seventh Circuit, which already interprets an “adverse employment action” narrowly for purposes of First Amendment retaliation claims. *See Mills v. City of Evansville, Ind. (“Mills II”), 452 F.3d 646, 647-48 (7th Cir. 2006).*
adequately protects a government employer’s ability to limit speech that jeopardizes operational efficiency, there is no reason to apply a broad interpretation of *Garcetti* that precludes all job-related statements from protection. In addition, allowing protection for statements under the first stage of *Pickering* while recognizing greater latitude for government employee discipline under the second stage would comport more with First Amendment jurisprudence, which recognizes that personal liberties should be narrowly proscribed.141

2. Limiting *Garcetti* comports with Seventh Circuit precedent.

The Seventh Circuit has addressed First Amendment retaliation claims by employees for statements made pursuant to employment responsibilities prior to the Supreme Court’s decision in *Garcetti*.142 In *Gonzalez v. City of Chicago*, a Chicago police officer claimed he was retaliated against by the City of Chicago, its Chief of Police, and two supervisors in the city’s 18th District for investigative reports he completed on at least nine 18th District Officers during his previous employment as a civilian employee of the Chicago Police Department’s Office of Professional Standards.143

The Seventh Circuit affirmed summary judgment for the defendants holding that Gonzalez could not, as a matter of law, establish he was speaking “as a citizen” under *Connick* inasmuch as his statements were “written statements for internal use in the Department,”144 “required by his employer,”145 and the statements

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141 See Shelton v. Tucker, 364 U.S. 479, 488 (1960) (“even though the governmental purpose be legitimate and substantial, that purpose cannot be pursued by means that broadly stifle fundamental personal liberties when the end can be more narrowly achieved”); N.A.A.C.P. v. Button, 371 U.S. 415, 432-33 (1963) (“Because First Amendment freedoms need breathing space to survive, government may regulate in the area only with narrow specificity”).

142 *Gonzalez v. City of Chicago*, 239 F.3d 939, 939-43 (7th Cir. 2001).

143 *Id.* at 940.

144 *Id.* at 941.

145 *Id.*
were “created in the scope of [his] ordinary job responsibilities.”

Judges Ripple, Manion, and Kanne reasoned that although the investigations of police misconduct addressed a matter of public concern, Gonzalez was precluded from claiming First Amendment protection because the investigative reports were a “routine requirement of the job” and, as such, Gonzalez was “clearly acting entirely in an employment capacity [and not as a citizen] when he made those reports.” The judges further noted that the written reports were “mandated” by Gonzalez’s employment responsibilities, and failure to write the reports would be a “dereliction of employment duties” for which Gonzalez could have been fired.

In 2002, the Seventh Circuit reinforced the distinction between routine and discretionary duties for purposes of determining whether an employee is speaking as a citizen in Delgado v. Jones. That case involved a 15-year veteran of the Milwaukee Police Department who claimed he was retaliated against after reporting to his supervising lieutenant that he may have information about public school employees buying and selling drugs, and that he had an informant who claimed that a close relative of a public official had been frequenting a drug house. Judges Cudahy, Rovner, and Wood held that the officer’s statements were not per se precluded from protection under Gonzalez, distinguishing between “routine” statements of the type made in Gonzalez and “discretionary” statements, which maintain some prospect of protection. The panel reasoned that although “divulging [the] information to his superiors may have been consistent with his obligations as a police officer in seeking an independent and objective investigation,” the officer nonetheless maintained “considerable discretion about how he communicated the information

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146 Id. (internal citation omitted).
147 Id.
148 Id.
149 Id. at 942.
150 Delgado v. Jones, 282 F.3d 511 (7th Cir. 2002).
151 Id. at 514.
152 Id.
up the chain of command,” such that the statements “went beyond some rote, routine discharge of an assigned duty as in Gonzalez.”

While the Seventh Circuit’s recent decision in Spiegla v. Hull seemingly dispenses with the routine/discretionary distinction, at least in the context of internal whistleblowing within a chain of command, the reasoning of Spiegla case is not inconsistent with a limited application of Garcetti to speech compelled or “mandated” by an employment duty as in Gonzalez.

In Spiegla, the “speech” at issue included Spiegla’s entries in her employer’s log book, and her internal reports to supervisors within her chain of command regarding the suspicious activities of two co-workers. Those entries and reports were made after Spiegla observed the suspicious activities of two fellow prison guards in the course of her assignment to monitor the front door of the prison where she was employed. Accordingly, Spiegla is distinguishable from Mills because even if internal whistleblowing was not encompassed within Spiegla’s “core duties,” she nonetheless had an affirmative employment duty to report the alleged infractions, and the speech at issue—which her entries in the log book—could properly be characterized as the employer’s speech.

3. The Seventh Circuit Could Have Reached the Same Result Without Stripping Mills’ Speech of First Amendment Protection.

The Seventh Circuit could have relied on the second stage of Pickering analysis to justify the City of Evansville’s employment decisions. The court could have held, as the district court did, that the speech at issue was protected, but that the Evansville Police Department’s interest in promoting official policy and preventing

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153 Id. at 519.
154 Spiegla v. Hull, No. 05-3722, 2007 WL 937081, at *5 (7th Cir. Mar. 30, 2007) (holding that “[the] focus on ‘core’ job functions is too narrow after Garcetti”).
155 Id. at *2.
156 Id. at *1.
disruption outweighed her interest in the speech. Because of the time and place in which Mills forwarded her speech, and because Mills voiced her opinion to superior officers out of her chain of command, *Pickering* balancing would favor the City of Evansville and, therefore, the court could have reached the same result without stripping Mills’ statements of First Amendment protection.

Alternately, given that Judge Easterbrook devotes the majority of the opinion to a discussion of why Mills’ “lateral transfer” was not an adverse employment action for purposes of a First Amendment retaliation claim, 157 the three-judge panel could have employed the same reasoning to hold that Mills’ statements were protected, but that Mills failed to state a retaliation claim because she had not established that she suffered an adverse employment action.

C. The Seventh Circuit improperly ignored the Supreme Court’s analytical guidelines.

The *Garcetti* majority defined the “pursuant to official duty” inquiry as a “practical” inquiry into the scope of the employee’s professional duties.158 And, the Court specifically rejected the suggestion that “employers can restrict employees’ rights by creating excessively broad job descriptions.”159 However, the Seventh Circuit never considered what Mills’ job responsibilities actually consisted of, or whether attending the Chief’s meeting and supporting the Chief’s re-structuring proposal were a legitimate part of her job responsibilities such that she was speaking “pursuant to official duty”

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157 The Seventh Circuit employs a three-stage burden-shifting analysis for First Amendment retaliation claims under § 1983: 1) the employee must establish that he engaged in constitutionally protected speech 2) the speech was a substantial or motivating factor in an adverse employment action taken against the employee 3) once the employee establishes the first two prongs, the burden shifts to the government defendant to prove by a preponderance of the evidence that the same action would have been taken irrespective of the protected speech. Kuchenreuther v. City of Milwaukee, 221 F.3d 967, 973 (7th Cir. 2000).


159 *Id.*
when she commented on the Chief’s proposal after the meeting.\textsuperscript{160} Moreover, the court did not address whether Mills was the type of high-ranking employee such that “political loyalty [is considered] a valid qualification” and the employee can be disciplined for failure to promote official policy.\textsuperscript{161} Instead, the Seventh Circuit merely concluded without explanation that Mills was speaking pursuant to her official duties because she was “speaking in her capacity as a public employee contributing to the formation and execution of official policy.”\textsuperscript{162}

Because the Seventh Circuit never examined what Mills’ job description actually entailed, its reasoning could be interpreted broadly as holding that any employee statement that tangentially relates to the internal operations of a government employer is subsumed within an employee’s “official duties” under \textit{Garcetti}.\textsuperscript{163} The related

\textsuperscript{160} Rankin v. McPherson, 483 U.S. 378, 390 (1987). (In the context of “weighing the state’s interest in discharging an employee based on any claim that the content of the statement somehow undermines the mission of the public employer, some attention must be paid to the responsibilities of the employee within the agency. The burden of caution employees bear with respect to the words they speak will vary with the extent of authority and public accountability the employee’s role entails”).

\textsuperscript{161} Fuerst v. Clarke, 454 F.3d 770, 772 (7th Cir. 2006).

\textsuperscript{162} Mills v. City of Evansville, Ind. (“Mills II”), 452 F.3d 646, 648 (7th Cir. 2006).

\textsuperscript{163} It could be persuasively argued that the Seventh Circuit’s definition goes beyond the bounds envisioned by the [Supreme] Court. It could be argued that if the standards upon which the Seventh Circuit based their decision had been used to assess Ardith McPherson or Bessie Givhan’s claims, the Supreme Court would have granted summary judgment and dismissed their claims. This [sic] Seventh Circuit’s definition of within the “scope of employ” is so broad that it effectively excludes the entire public employee labor force from First Amendment protection sans a few lone instances where some lucky soul may find safe harbor.

presumption—that “all matters which transpire within a government office are of public concern”\textsuperscript{164}—was expressly rejected in \textit{Connick}, and such a sweeping generalization without further analysis should be similarly rejected in determining whether a government employee is speaking “as a citizen.”

Even if Mills had a duty to respond to the Chief’s question, her statements should not be precluded from First Amendment protection simply because they are job-related. If the Chief was unhappy with the content of Mills’ response, he was free to discipline her for insubordination, or (as he did) for the time and manner in which she voiced her opinions.

In addition, the three-judge panel never addressed, nor did it even mention in its summary of facts, that the Chief of Police initiated his conversation with Mills specifically because he had heard that several of the Crime Prevention Officers were contacting neighborhood groups and asking them to directly contact the mayor to criticize his proposal.\textsuperscript{165} Therefore, there is a justifiable inference that the purpose of the Chief’s conversation with Mills was to enlist Mills to stifle the protected speech of her subordinate officers.\textsuperscript{166} Arguably, such tasks were not a part of Mills official responsibilities, and Mills maintained the prospect of First Amendment protection in responding to such a suggestion.

But perhaps of the greatest concern is the fact that had the three-judge panel examined Mills’ job responsibilities, it likely could have found a justified basis for holding that Mills was speaking “pursuant to [her] official duties.” Under \textit{Garcetti}, the Seventh Circuit could have reasoned that Mills was speaking pursuant to an official duty because

\begin{itemize}
\item \textsuperscript{164} Connick v. Myers, 461 U.S. 138, 149 (1983).
\item \textsuperscript{165} Mills v. City of Evansville, Ind. ("Mills I"), No. 3:03CV00183-JDT-WGH, 2005 WL 1939917, at *1 (S.D. Ind. June 28, 2005), overruled by 452 F.3d 646, 646-48 (7th Cir. 2006).
\item \textsuperscript{166} Garcetti leaves unquestioned that public employees retain First Amendment protection for statements on matters of public concern made publicly and not in the course of their official duties. Garcetti v. Ceballos, 126 S. Ct. 1951, 1960 (2006). As such, Crime Prevention Officers were free to enlist neighborhood organizations to oppose the Chief’s re-organization plan.
\end{itemize}
Mills was required to attend the Chief’s meeting in lieu of her supervisor. Yet, Judge Easterbrook curiously omitted this point from his summary of facts.167 Had the opinion relied on this fact in its reasoning, Mills could be justified under Garcetti on the basis that Mills’ spoke pursuant to her official duties her attendance at the meeting was a required job responsibility.

Alternately, the three-judge panel could have considered whether Mills was the type of high-ranking official whose employment duties include promoting official policy.168 If so, Mills’ job responsibilities may have legitimately encompassed her statements after the Chief’s meeting such that those statements were precluded from protection under Garcetti.169

III. OTHER CIRCUITS’ INTERPRETATIONS

Although Garcetti is a relatively recent opinion, the majority of circuits have applied its holding to determine whether a government employee spoke “pursuant to [] official duties.”170 Although many of these circuits have cited Mills for the proposition that government employees are not insulated from discipline for statements made pursuant to an employment duty171 the majority of circuits have, to

168 See Fuerst v. Clarke, 454 F.3d 770, 772 (7th Cir. 2006).
169 Id.
170 As of May 2, 2007, every circuit but the First Circuit has applied Garcetti. See Skehan v. Vill. of Mamaroneck, 465 F.3d 96 (2d Cir. 2006); Hill v. Borough of Kutztown, 455 F.3d 225,242 (3d Cir. 2006); Campbell v. Galloway, No. 06-1038, 2007 WL 1166101 (4th Cir. Apr. 20, 2007); Williams v. Dallas Indep. Sch. Dist., 480 F.3d 689, 692-93 (5th Cir. 2007); Haynes v. City of Circleville, Ohio, 474 F.3d 357, (6th Cir. 2007); Mills v. City of Evansville, Ind., 452 F.3d 646, 647 (7th Cir. 2006); McGee v. Pub. Water Supply, Dist. #2 of Jefferson County, Mo., 471 F.3d 918, 920 (8th Cir. 2006); Freitag v. Ayers, 468 F.3d 528, 543 (9th Cir. 2006); Casey v. W. Las Vegas Indep. Sch. Dist., 473 F.3d 1323, 1329-30 (10th Cir. 2007); Battle v. Bd. of Regents for the State of Ga., 468 F.3d 755, 760 (11th Cir. 2006); Wilburn v. Robinson, 480 F.3d 1140,1149-50 (D.C. Cir. 2007).
171 See Williams, 480 F.3d at 694; Green v. Bd. of County Comm’rs, 472 F.3d 794, 799 (10th Cir. 2007); Wilburn, 480 F.3d at 1149.
date, limited their application of *Garcetti* to required job duties, including duties to report wrongdoing.172

For example, the Fifth Circuit has held that an athletic director employed by a public school was speaking pursuant to his official duties when he wrote two separate memoranda173 complaining about the office manager’s failure to provide him with information relating to the athletic account.174 Interpreting *Garcetti*, the court emphasized that the plaintiff there was “performing activities required to fulfill his duties as a prosecutor and calendar deputy”175 and therefore reasoned that “job-required speech is not protected.”176 Applying that reasoning, the court held that the subject matter and context of the memoranda supported a holding that the athletic director was speaking pursuant to his official duties.177 The court reasoned that, although the writing the memo may not have been “demanded of him” in the same way as the memo in *Garcetti*, it was nonetheless created in the course of doing his job.178 Specifically, the court reasoned that the subject matter of the memoranda focused on the athletic director’s “daily operations” and that he needed the account information in order to do his job.179

Similarly, the D.C. Circuit has held that the Director of the District’s Office of Human Rights was speaking pursuant to an official duty where she complained that the District Office of Personnel’s salary decisions for two job applicants was discriminatory.180 In *Wilburn v. Robinson*, the court held that government employee speech

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172 *Hill*, 455 F.3d at 230, 242; *Green*, 472 F.3d at 800-01; *Williams*, 480 F.3d at 690-91; *McGee*, 471 F.3d at 921; *Freitag*, 468 F.3d at 546; *Battle*, 468 F.3d at 761; *Wilburn*, 480 F.3d at 1142, 1150.

173 The first memorandum was sent to the school’s office manager and the second to the school’s principal. *Williams*, 480 F.3d at 690-91.

174 *Id.* at 690-91, 694.

175 *Id.* at 693.

176 *Id.*

177 *Id.* at 694.

178 *Id.*

179 *Williams v. Dallas Indep. Sch. Dist.*, 480 F.3d 689, 693 (5th Cir. 2007).

180 *Wilburn v. Robinson*, 480 F.3d 1140, 1142, 1150 (D.C. Cir. 2007) (emphasis added).
is precluded from First Amendment protection where the contested speech “falls within the scope of the employee’s uncontested job responsibilities.” Thus, the Director was speaking pursuant to an official duty because her employment duties “easily” encompassed “identify[ing] and eliminat[ing] discriminatory practices in employment . . . in the District of Columbia.”

As Wilburn illustrates, several circuits have applied Garcetti to internal whistle-blowers who report wrongdoing up the chain of command. For instance, the Eleventh Circuit has held that an employee of a state university’s Office of Financial Aid and Veterans Affairs was speaking pursuant to her official duties when she reported concerns about fraudulent financial aid claims. Likewise, the Third Circuit has held that the Borough Manager of the Borough of Kutztown was speaking pursuant to an official duty when he reported complaints of harassment to the Borough Council. And, the Eighth Circuit held that a public employee was speaking pursuant to his official duties when he reported a concern about sewage leakage.

181 Id. at 1150; but see Battle v. Bd. of Regents of Ga., 468 F.3d 755, 761 (11th Cir. 2006) (specifically rejecting the idea that Garcetti applies only to an “employee’s everyday job functions”).

182 Id. at 1150-51 (alteration in original).


184 Battle, 468 F.3d at 761-62.

185 Hill, 455 F.3d at 230, 242.

186 McGee, 471 F.3d at 921; but see Bradley v. James, 479 F.3d 536, 538 (8th Cir. 2007) (holding that the plaintiff’s allegations that a superior officer was intoxicated were precluded from protection, not because the plaintiff had a duty-to-report, but because the statements were made during the course of the investigation and were, thus, made pursuant to his official duties); Haynes v. City of Circleville, Ohio, 474 F.3d 357, 360, 364 (6th Cir. 2007) (holding that a Police Officer’s memo to is supervisor complaining about training cutbacks was speaking pursuant to an official duty).
The Ninth, Tenth, Second, and Fourth Circuits suggest that a distinction between required and discretionary reporting\textsuperscript{187} is still viable. In \textit{Freitag v. Ayers}, the Ninth Circuit held that a female prison guard was speaking pursuant to her official duties when she filed internal complaints of sexual harassment by inmates, but she spoke as a citizen when she reported the same concerns outside of the Department of Corrections to her state senator and the California Inspector General.\textsuperscript{188} The court further held there was a factual issue as to whether she was speaking as a citizen when contravened the chain of command and complained to the Director of the Department of Corrections and Rehabilitation in the state capitol.\textsuperscript{189} Similarly, in \textit{Casey v. West Las Vegas Independent School Board}, the Tenth Circuit held that a school superintendent, who was also the CEO of the school’s Head Start program,\textsuperscript{190} was speaking pursuant to an official duty when she voiced concerns about the program’s compliance with federal regulations to the School Board,\textsuperscript{191} but spoke as a citizen when she voiced those concerns to the state’s Attorney General.\textsuperscript{192} And, in \textit{Skehan v. Village of Mamaroneck}, the Second Circuit refused to decide on summary judgment whether a Police Officer’s complaints to the state’s Attorney General regarding racial decision-making in the Department were encompassed in his employment duties.\textsuperscript{193}

Along the same lines, the Fourth Circuit has suggested that employee complaints about co-workers that address personal slights, as opposed to misconduct that affects the public, are not encompassed

\textsuperscript{187} Delgado v. Jones, 282 F.3d 511, 514 (7th Cir. 2002); Gonzalez v. City of Chicago, 239 F.3d 939, 941 (7th Cir. 2001). However, other circuits reject this distinction. \textit{Cf. Battle}, 468 F.3d at 761 (specifically rejecting the idea that \textit{Garcetti} applies only to an “employee’s everyday job functions”).

\textsuperscript{188} 468 F.3d 528, 546 (9th Cir. 2006).

\textsuperscript{189} \textit{Id.}

\textsuperscript{190} 473 F.3d 1323, 1325 (10th Cir. 2007).

\textsuperscript{191} \textit{Id.} at 1330.

\textsuperscript{192} \textit{Id.} at 1332-33.

\textsuperscript{193} 465 F.3d 96, 102, 106 (4th Cir. 2006).
in the duty-to-report. That circuit has remanded a case for further fact-finding to determine whether a female police officer was speaking pursuant to her official duties when she submitted a memo to the town attorney detailing “perceived slights” and potentially harassing conduct by other officers.

Other circuits’ interpretations of *Garcetti* demonstrate why an overly broad reading of *Mills*, which encompasses all job-related statements, is inappropriate. The majority of these circuits have only read *Garcetti*’s bar to apply in one or a combination of two circumstances: 1) where the speech is compelled or required by an employment duty, and 2) usually where the speech is forwarded using a medium controlled by the employer; whether it be a log book, an internal grievance procedure, or a reporting dichotomy. In light of these decisions, a broad application of *Mills* likely misapplies the Supreme’s Court decision and creates bad precedent and as such, the Seventh Circuit should re-visit and clarify its holding in *Mills*.

IV. IMPLICATIONS FOR GOVERNMENT EMPLOYEES AND EMPLOYERS IN THE SEVENTH CIRCUIT

A. Implications for government employees

Because the *Mills* opinion did not expressly hold that Sergeant Mills was speaking pursuant to an official duty solely because she was on duty and in uniform, government employees in the Seventh Circuit may argue that *Mills* should be limited to its facts, and that *Mills* can only be supported on two logical bases: 1) because Mills was required to attend the Chief’s meeting, or 2) because Mills was the type of high-ranking official whose employment responsibilities include supporting, without questioning, the official stance of her employer. Public employees may further argue that a broader reading of *Mills* is

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195 Id. at *1.
inconsistent with the facts and reasoning of Garcetti, and with the history of Supreme Court jurisprudence leading to Garcetti.

But even in light of the broad application that Mills suggests, the Seventh Circuits decision, arguably, will not greatly affect lower level whistleblowers whose job descriptions do not include a duty-to-report. In addition, employees would seem to maintain protection from retaliation for statements made at the workplace which are not part of a delegated task and do not pertain to the subject matter of employment—for example, an employee’s expression of unpopular political ideas in the lunchroom. It should also be remembered that, even in light of Garcetti, government employees are still protected for whistleblowing under Title VII, state whistleblower statutes, and other federal statutes.

B. Implications for government employers

Although Mills assists government employers by allowing them to dispose of a large variety of claims at the summary judgment stage, its broad holding can nonetheless work against a government employer who does not employ sufficient internal mechanisms against retaliation. As Section III demonstrates, Garcetti has been held to protect an employee’s complaints outside of the chain of command. Thus, an employer that does not internally safeguard employees from retaliatory employment actions creates an incentive for employees to

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196 Compare Trejo v. Shoven, 319 F.3d 878, 887 (7th Cir. 2003) (quoting Swank v. Smart, 898 F.2d 1247, 1250-51 (7th Cir. 1990)) (“Casual chit-chat between two persons or otherwise confined to a small group . . . is not protected”) (alteration in original), with Rankin v. McPherson, 483 U.S. 378, 386-88 (1987) (holding First Amendment protection extended to private statements made by an employee to a co-worker regarding the attempted assassination of then President, Ronald Reagan).


198 See 20 ILL. COMP. STAT. 415/19 c.1 (West 2007); IND. CODE 36-1-8-8 (West 2007); WIS. STAT. § 230.80 (West 2007).

199 See generally Peter O. Hughes, Employment at Will, 10-259 LAB. AND EMP. L. (Matther Bender) § 259.04 n.5 (2007), available at LEXIS 10-259 Lab. and Emp. Law § 259.04.
bypass the employer’s internal mechanisms, and to report their concerns outside of the office, or directly to the public.

Government employers should also employ internal review processes prior to disciplining or discharging employees in connection with statements made at the workplace to ensure that they are not left open to liability under Garcia. In addition, these employers would be wise to base their internal procedures on a narrower reading of Mills in the case that decision is clarified or overruled.

CONCLUSION

The Supreme Court’s decision in Garcetti v. Ceballos will likely continue to spawn debate over what types of employee speech are encompassed within a government employee’s official duties. Although the First Circuit has not yet addressed this issue, Garcetti should be limited to speech required by an employment duty, or forwarded using a medium controlled by the employer. In addition, other circuits that have addressed the issue should continue to limit their holdings to these scenarios, leaving the second stage of Pickering balancing to protect government employer’s legitimate interest in limiting disruptive speech. Because other circuits have so limited their application of Garcetti, the Seventh Circuit should clarify its holding in Mills and define a method for analysis for determining when statements are made pursuant to an official duty to provide certainty for both government employees and employers in the Seventh Circuit.
DOMESTIC VIOLENCE HARMs THE CHILD! THE SEVENTH CIRCUIT PUTS CHILDREN FIRST IN INTERNATIONAL CUSTODY DISPUTES

JENNIFER S. TIER *


INTRODUCTION

A woman, who is a United States citizen, lives abroad with her children and husband who is a foreign national. Her husband constantly beats her, strangles her, and verbally assaults her alone and in front of the children. Her husband has also started spanking the oldest child on a nightly basis. Because she is not familiar with the foreign legal system, she does not seek help or understand what she needs to do in order to get help. To protect herself and her children, she takes the children to the United States.

Traditionally, under the Hague Convention on the Civil Aspects of International Child Abduction (hereinafter “Hague Convention” or “Convention”), enacted in 1980, (also referred to as the International Child Abduction Remedies Act, the name of the United States’ implementing statute) a court could return the children to the foreign

* J.D. Candidate and Certificate in Litigation and Alternative Dispute Resolution Candidate, May 2007, Chicago-Kent College of Law, Illinois Institute of Technology; B.A. magna cum laude, May 2004, New York University, College of Arts and Science. Jennifer S. Tier is deeply indebted to the following individuals for their comprehensive input on this Comment: Professor Hal R. Morris, Julia R. Lissner, Elisabeth S. Shellan, Daniel L. Snedigar, and Matthew W. McQuiston.
country if the husband petitions a federal court.\footnote{1} While the Hague Convention does provide defenses to this remedy of returning the children to the country of the petitioning parent, these do not explicitly include a defense for cases of domestic violence.\footnote{2} The most commonly used defense in cases of domestic violence is Article 13(b) that states the “remedy of return” is negated when there is a “grave risk of harm to child.”\footnote{3} Although this defense would seem adequate to cover cases of domestic violence, the U.S. Courts of Appeals have traditionally either rejected it altogether or altered what the Hague Convention requires by interpreting it narrowly.\footnote{4} In the past, circuit courts have given the grave risk of harm defense an extremely narrow interpretation.\footnote{5} First, some circuit courts do not think that domestic violence between parents constitutes a grave risk of harm to the child.\footnote{6} Second, some circuit courts have reasoned that if the laws of the child’s country of habitual residence will adequately protect the child, courts should return the child, despite any domestic violence.\footnote{7} Third, some courts have reasoned that courts should attach conditions, such as a restraining order, which will adequately protect the child when the court returns the child to the country of habitual residence, mitigating


\footnote{2} Hague Convention, supra note 1, Article 13(b).


\footnote{4} See, e.g., Miller v. Miller, 240 F.3d 392, 402-03 (4th Cir. 2001); Blondin v. DuBois, 238 F.3d 153, 160-61 (2d Cir. 2001); March v. Levine, 249 F.3d 462, 472 (6th Cir. 2001); Friedrich v. Friedrich, 78 F.3d 1060, 1069 (6th Cir. 1996); Nunez-Escudero, 58 F.3d at 377.


\footnote{6} See, e.g., March, 249 F.3d at 472; Nunez-Escudero, 58 F.3d at 377; Tabacchi, 2000 WL 190576, at *13.

\footnote{7} Miller, 240 F.3d at 402-03; Friedrich, 78 F.3d at 1069.
the grave risk of harm. Such conditions, or “undertakings,” are arrangements or conditions placed upon the parties that make it feasible to return the child to the country of habitual residence. Undertakings typically include restraining orders, payments of housing and transportation costs, temporary custody arrangements, and other safety requests. Using this legal analysis, the circuit courts have narrowed the scope of the grave risk of harm defense, favoring to an impermissible degree the integrity of the Hague Convention over protection of individual children. Circuit courts have also violated notions of international comity by specifically undermining the laws of foreign countries when they evaluate the adequacy of those laws or issue undertakings. “International comity encompasses the idea that countries should interpret an international Convention that applies to both of them so as not to undermine the other country’s law and structure.”

In December 2005, the Seventh Circuit Court of Appeals recognized in Van de Sande v. Van de Sande that spousal abuse and child abuse constitute a grave risk of harm to the child. Despite the historically narrow interpretation of the grave risk of harm defense in the United States, Van de Sande represents the growing trend among some circuit courts to expand this defense. Specifically, the Seventh Circuit recognized that nowhere does the Hague Convention indicate that courts should analyze the laws of the country of the petitioning

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8 See, e.g., Blondin, 238 F.3d at 163; Friedrich, 78 F.3d at 1069.
10 Id. at 189.
11 Morley, supra note 5, at 1.
12 Danaipour v. McLarey, 286 F.3d 1, 23 (1st Cir. 2002); see Hoegger, supra note 9, at 202-03.
14 See generally Van de Sande v. Van de Sande, 431 F.3d 567 (7th Cir. 2005).
15 Morley, supra note 5, at 1.
This Comment contends that the Seventh Circuit correctly analyzed and expanded the grave risk of harm defense in the context of domestic violence. Section I will explain the provisions of the Hague Convention and International Child Abduction Remedies Act. Section II will discuss some of the problems with the remedy of return under Hague Convention in cases of domestic violence. Section III will address how several circuit courts have analyzed the grave risk of harm defense. Section IV will explain the Seventh Circuit’s decision in *Van de Sande v. Van de Sande*. Section V will further discuss why the Seventh Circuit correctly interpreted the Hague Convention and expanded the grave risk of harm defense in cases of domestic violence.

**I. THE INTERNATIONAL CHILD ABDUCTION REMEDIES ACT**

The International Child Abduction Remedies Act is the United States statute which implements the international treaty entitled the Hague Convention on the Civil Aspects of International Child Abduction. The Convention on the Civil Aspects of International Child Abduction, done at The Hague on October 25, 1980, establishes legal rights and procedures for the prompt return of wrongfully removed or retained children, and secures the exercise of visitation rights. For example, the Hague Convention entitles a parent whose child has been abducted from a foreign country to the United States (typically by a parent) to petition in federal court for the return of the child. Specifically:

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16 *Van de Sande*, 431 F.3d at 571.
17 *Id*.
18 *Id.* at 568.
20 *Van De Sande*, 431 F.3d at 568.
The Hague Convention was created to discourage abductions by parents who either lost, or would lose, a custody contest... The Convention drafters adopted a ‘remedy of return’... to discourage abductions, reconnect children with their primary caretakers, and locate each custody contest in the forum where most of the relevant evidence existed.21

Framers of the Convention formulated it with the idea that custody issues should be decided by the country of the child’s habitual residence, not the country to which a parent has abducted the child.22 Courts are to promptly return children, whose parent wrongfully removed or retained them within the meaning of the Convention, unless one of the narrow defenses under the Convention applies.23 According to the remedy of return (also known as the ‘return principle’), the receiving country should promptly return the child to the country of habitual residence for adjudication of the custody matter.24 The remedy of return is the preferred response to international child abductions.25 Also, a Hague Convention proceeding is not meant to be used as a trial to determine custody, but instead to merely determine which country would have jurisdiction over any pending custody disputes.26

Two defenses to the remedy of return are Articles 12 and 13(b), both of which must be established using clear and convincing evidence.27 Under Article 12 of the Convention, for example, a court need not return a child if one year has elapsed since the wrongful

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22 Morley, supra note 5, at 1.
24 Hoegger, supra note 9, at 186.
25 Id.
26 Morley, supra note 5, at 2.
removal or retention and the child is now settled in his or her new environment. In addition, a country is not required to return the child if the person seeking the child’s return “was not actually exercising the custody rights at the time of removal or retention, or had consented to or subsequently acquiesced in the removal or retention.” Article 13(b) of the Convention states:

Notwithstanding the provisions of the preceding Article, the judicial or administrative authority of the requested State is not bound to order the return of the child if the person, institution, or other body which opposes its return establishes that (b) there is a grave risk of harm that his or her return would expose the child to physical or psychological harm or otherwise place the child in an intolerable situation.

II. HOW THE HAGUE CONVENTION FALLS SHORT IN DOMESTIC ABUSE CASES

The structure of the Hague Convention and the preference for the principle of return have led to inadequate protections for victims of domestic violence. The Hague Convention provides no explicit defense that allows abduction if it occurs to escape from domestic violence. Further, courts have generally not interpreted the Convention’s current defenses (particularly the grave risk of harm defense) to prevent the remedy of return in the case of a mother’s flight from domestic violence. Also, the court of the country where the child is abducted retains discretion to return the child to the

28 Weiner I, supra note 3, at 650.
29 Id.
30 Hague Convention, supra note 1, Art. 13(b).
31 See generally Weiner I, supra note 3.
32 Id. at 599.
33 Id. at 651.
country of habitual residence, even when one of the defenses under the convention is asserted.34

First, the Explanatory Report of the Convention, which courts are to give weight to when interpreting the Convention, asserts that defenses to the remedy of return, including the grave risk of harm defense, should be narrowly interpreted to prevent the “collapse of the entire structure of the convention.”35 Specifically, Paragraph 34 of the Explanatory Report states:

[T]he three types of exception to the rule concerning the return of the child must be applied only so far as they go and no further . . . [A] systematic invocation of the said exceptions, substituting the forum chosen by the abductor for that of the child’s residence, would lead to the collapse of the whole structure of the Convention by depriving it of the spirit of mutual confidence which is its inspiration.36

The U.S. Department of State, in a report prepared for the Senate Committee on Foreign Relations, also confirms that courts should narrowly interpret the grave risk of harm defense.37 The report states, “any exceptions had to be drawn narrowly lest their application undermine the express purposes of the Convention—to affect the prompt return of abducted children.”38 The report also states, “it was generally believed that courts would understand and fulfill the objectives of the Convention by narrowly interpreting the

37 Id.
38 Id.
exceptions.” Finally, the State Department cautioned courts that the 
gravе risk оf harm defense “was not intended to be used by defendants 
as a vehicle to litigate (or relitigate) the child’s best interests.”

Second, the Convention itself seems to have a particular 
stereotype of the kinds of international kidnappings that occur. In 
particular, the drafters of the Hague Convention assumed that 
international child abduction almost always harmed to children. The 
drafters assumed that the abductors were non-custodial parents, 
sometimes abusive, who kidnapped the child because they thought 
they were going to lose custody. During the 1986 proceedings for the 
ratification of the Hague Convention in the United States, 
Congressmen told many real-life stories to illustrate the danger of 
international child abduction. All of the cases cited involved 
abductions by male non-custodial parents and a “deprived parent in the 
United States.” An identical stereotype also helped secure the 
passing of the International Child Abduction Remedies Act, the 
implementing legislation of the Hague Convention in the United 

While the remedy of return works well if the abductor is a non-
custodial parent, it is ineffective and inappropriate when the abductor 
is the primary caretaker who flees because of domestic violence. In 
such a case “the remedy of return puts the victim’s most precious 
possessions, her child, in close proximity to her batterer either without

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39 Id.
40 Id.
41 Weiner I, supra note 3, at 603.
42 Id. at 616.
43 Id. at 617.
44 Id. at 602. (Senator Dixon told the story of Patricia Rousch whose two 
daughters were kidnapped by their father, a Saudi national, even though she had 
legal custody of the children. Senator Gore spoke of Holly Planells, a woman whose 
son was taken by her ex-husband to Jordan, even though she had full legal custody 
and the judge had imposed restrictions on the father’s weekend visitation).
45 Id. at 603.
46 Id.
47 Weiner II, supra note 21, at 278-79.
her protection (assuming she does not return with the child), or with her protection, thereby exposing her to further violence.\footnoteref{48}

III. UNITED STATES COURT OF APPEALS DECISIONS WITH REGARD TO DOMESTIC VIOLENCE UNDER THE HAGUE CONVENTION

While the United States Supreme Court has yet to decide a case on the implications of domestic violence under the International Child Abductions Remedies Act, the United States Court of Appeals have taken several different approaches to the issue.\footnotereftext{49} The circuit courts, until approximately 2000, traditionally followed the approach advocating courts narrowly interpret the grave risk of harm defense, often holding that domestic violence does not constitute a grave risk of harm.\footnotereftext{50} Specifically, some circuit courts have narrowed the grave risk of harm defense by requiring courts to evaluate the custody laws of the country of habitual residence and requiring courts to analyze whether undertakings can mitigate any grave risk of harm.\footnotereftext{51} Some circuits have also limited the grave risk of harm defense to a very narrow set of facts, such as circumstances in which the children suffer from post-traumatic stress disorder.\footnotereftext{52}

The Eighth Circuit Court of Appeals, in \textit{Nunez-Escudero v. Tice-Menley}, held that there was not a grave risk of harm to the child, although the mother alleged that she had been “physically, sexually and verbally abused” and that she was “treated as a prisoner” by her

\footnoteref{48} \textit{Id}.
\footnoteref{49} See, e.g., Blondin v. DuBois, 238 F.3d 153 (2d Cir. 2001); Friedrich v. Friedrich, 78 F.3d 1060 (6th Cir. 1996); Nunez-Escudero v. Tice-Menley, 58 F.3d 374 (8th Cir. 1995).
\footnoteref{51} See, e.g., \textit{Blondin}, 238 F.3d at 163; Miller v. Miller, 240 F.3d 392, 403 (4th Cir. 2001); Friedrich, 78 F.3d at 1069, \textit{Nunez-Escudero}, 58 F.3d at 377-78; \textit{Tabacchi}, 2000 WL 190576, at *15.
\footnoteref{52} See generally Blondin, 238 F.3d at 153.
husband and father-in-law. The mother ("Tice-Menley") also stated that she feared for her baby’s safety because her husband and husband’s family objected to her nursing the baby, and the husband refused to buy a baby seat for the car. The court noted that most of the evidence presented concerned problems between Tice-Menley and her husband and father-in-law; thus, the evidence was not specific enough for the court to rule that there was a grave risk of harm to the child. The Eighth Circuit remanded the case to the district court in order to consider “information relating to the social background of the child,” specifically the environment in which the child would reside upon returning to his habitual residence. The court, however, instructed the district court not to “consider evidence relevant to the custody or the best interests of the child.” The court also noted that Tice-Menley must prove by clear and convincing evidence that return of the child to Mexico, the habitual residence, would subject him to a “grave risk of harm or otherwise place him in an intolerable situation.” Ultimately, the Eighth Circuit seemed to reject the notion that domestic violence directed towards a spouse constitutes a grave risk of harm to the child; thus, the grave risk of harm defense would fail in situations of spousal abuse. The Eighth Circuit also espoused the notion that courts should look to the laws in the country of habitual residence and what social institutions are in place, if the court returns the child to his/her habitual residence. Accordingly, if a country has proper laws and social institutions in place, these laws and institutions

53 Nunez-Escudero, 58 F.3d 374 at 376.
54 Id.
55 Id. at 377.
56 Id. at 378.
57 Id.
58 Id.
59 Id. at 377.
60 Id.
mitigate the grave risk of harm to the child due to abuse of the mother or child.\footnote{Id.}{61}

The Sixth Circuit Court of Appeals has noted that the grave risk of harm defense only exists in two very narrow circumstances.\footnote{Friedrich v. Friedrich, 78 F.3d 1060, 1069 (6th Cir. 1996).}{62} First, there is a grave risk of harm when return puts the child in imminent danger prior to the resolution of the custody dispute, such as returning the child to a “zone of war, famine, or disease.”\footnote{Id.}{63} Second, there is a grave risk of harm in cases of “serious abuse or neglect, or extraordinary emotional dependence, when the court in the country of habitual residence, for whatever reason, may be incapable or unwilling to give the child adequate protection.”\footnote{Id. at 1067.}{64} The Sixth Circuit decided in the case of \textit{Friedrich v. Friedrich} that there was not a grave risk of harm to the child because the mother’s only claim was that the child would have adjustment problems if returned to the habitual residence.\footnote{Id.}{65} The mother did not allege abuse on the part of her husband.\footnote{Id.}{66} Several circuit courts have commonly utilized the Sixth Circuit’s reasoning in \textit{Friedrich} regarding what constitutes grave risk of harm to the child.\footnote{See, e.g., Blondin v. DuBois, 238 F.3d 153, 162-63 (2d Cir. 2001); Miller v. Miller, 240 F.3d 392, 403 (4th Cir. 2001); March v. Levine, 249 F.3d 462, 472 (6th Cir. 2001).}{67} Specifically, U.S. courts traditionally tended to look at the child protection and spousal protection laws of the country of habitual residence to determine if those laws provide adequate protection to the child, thereby negating any grave risk of harm.\footnote{See, e.g., Blondin, 238 F.3d at 162-63; Miller, 240 F.3d at 403; March, 249 F.3d at 472.}{68} The Second Circuit Court of Appeals actually held in the case of \textit{Blondin v. DuBois} that there was a grave risk of harm to the child, but it seemed to limit its holding solely to the facts of the case at hand.\footnote{Blondin, 238 F.3d at 163.}{69}
Blondin, the father had repeatedly abused the wife and the children, so the wife took the two children from their habitual residence in France to the United States.\textsuperscript{70} When the father learned that the mother had taken the children, he instituted proceedings in the district court seeking return of the children to France under the Hague Convention.\textsuperscript{71} During the first proceeding in the district court, the mother prevailed on her grave risk of harm defense.\textsuperscript{72} However, the Second Circuit vacated the judgment of the district court and remanded the cause for further proceedings.\textsuperscript{73} The court did not question the trial court’s findings regarding the history of abuse, but held that further proceedings were required to determine whether “any arrangements might be made that would mitigate the risk of harm to the children, thereby enabling them safely to return to France.”\textsuperscript{74} On remand, the district court found that there was still a grave risk of harm to the children even though the father and French government had agreed to certain undertakings.\textsuperscript{75} Specifically, the father agreed to assist the mother and children financially in moving back to France and agreed not to make contact with them prior to the judicial determination on custodial rights, and the French government agreed that it would not prosecute the mother for abduction.\textsuperscript{76} Specifically, the district court found that any arrangements would fail to mitigate the grave risk of harm to the children because returning the children to France under any circumstances would cause them psychological harm, as France was the scene of their trauma.\textsuperscript{77} During trial, an uncontested expert testified that the children would suffer from post-
traumatic stress disorder just from the act of returning to live in France.\textsuperscript{78}

Finally, the First Circuit Court of Appeals in 2000 recognized a grave risk of harm defense in cases of domestic violence.\textsuperscript{79} In \textit{Walsh v. Walsh}, the court held that there was a valid grave risk of harm defense due to an abusive and violent husband; thus, the court would not return the children to Ireland.\textsuperscript{80} The circuit court reversed the decision of the district court because of several “fundamental errors.”\textsuperscript{81} First, the court reasoned that the district court “inappropriately discounted the grave risk of physical and psychological harm to children in cases of spousal abuse.”\textsuperscript{82} The circuit court also noted that the district court failed to take into account the husband’s “generalized pattern of violence,” (including violence that had been directed towards his children from a previous relationship) and the husband’s “chronic disobedience of court orders.”\textsuperscript{83} The court reasoned that spousal abuse causes physical and psychological harm to the children as recognized by social science literature, and state and federal law.\textsuperscript{84} The court also noted although Ireland had adequate protection laws, those laws would not prevent abuse because it was unlikely that the husband would follow them.\textsuperscript{85} Finally, the court looked at the possibility of undertakings as a way to mitigate the grave risk of harm, yet reasoned that undertakings would also be ineffective because of the unlikelihood that the husband would adhere to them.\textsuperscript{86}

The court finally noted that they did not come to “this conclusion lightly.”\textsuperscript{87} The court recognized that international child abduction is a

\begin{itemize}
  \item \textsuperscript{78} \textit{Id.}
  \item \textsuperscript{79} Walsh v. Walsh, 221 F.3d 204, 219 (1st Cir. 2000).
  \item \textsuperscript{80} \textit{Id.} at 221.
  \item \textsuperscript{81} \textit{Id.} at 219.
  \item \textsuperscript{82} \textit{Id.}
  \item \textsuperscript{83} \textit{Id.}
  \item \textsuperscript{84} \textit{Id.} at 220.
  \item \textsuperscript{85} \textit{Id.}
  \item \textsuperscript{86} \textit{Id.} at 221.
  \item \textsuperscript{87} \textit{Id.}
\end{itemize}
serious problem and that in most cases Hague Convention petitions result in the return of the children to the country of habitual residence.\textsuperscript{88} However, the Hague Convention provides for certain “limited exceptions [defenses]” to the general principle of returning the child to the country of habitual residence and the court reasoned the \textit{Walsh} case demonstrated such a defense.\textsuperscript{89} Specifically, the grave risk of harm defense applied to the \textit{Walsh} case because of the husband’s flight after an indictment for threatening to kill another person and a long and documented history of violence and disregard of court orders, which, as the court stated, went “well beyond what one usually encounters even in bitter divorce and custody contexts.”\textsuperscript{90}

IV. SEVENTH CIRCUIT’S ANALYSIS IN \textit{VAN DE SANDE v. VAN DE SANDE}

\textit{A. Introduction to Seventh Circuit’s decision}

The case of \textit{Van de Sande v. Van de Sande} is a perfect example of when the remedy of return is inappropriate, and the Seventh Circuit Court of Appeals properly recognized this limitation within the International Child Abduction Remedies Act.\textsuperscript{91} Also, the Seventh Circuit deviated from the reasoning of the Eighth and Sixth Circuits and is more willing to accept the notion that domestic violence constitutes a grave risk of harm to the child.\textsuperscript{92} Specifically, the Seventh Circuit rejected the jurisprudence courts should analyze the child protection laws of the habitual residence to determine if there is a grave risk of harm to child.\textsuperscript{93} The Seventh Circuit also questioned the remedy of undertakings, conditions placed on the alleged abusive

\textsuperscript{88} \textit{Id}. at 222.
\textsuperscript{89} \textit{Id}.
\textsuperscript{90} \textit{Id}.
\textsuperscript{91} \textit{See} \textit{Van de Sande v. Van de Sande}, 431 F.3d 567, 572 (7th Cir. 2005); Weiner II, \textit{supra} note 21, at 278-79.
\textsuperscript{92} \textit{See} \textit{Van de Sande}, 431 F.3d at 570; \textit{see also} Blondin v. DuBois, 238 F.3d 153, 153 (2d Cir. 2005); Friedrich v. Friedrich, 78 F.3d 1060, 1060 (6th Cir. 1996); Nunez-Escudero v. Tice-Menley, 58 F.3d 374, 374 (8th Cir. 1995).
\textsuperscript{93} \textit{Van de Sande}, 431 F.3d at 571.
The parent that would still enable the court to return the child to the habitual residence despite a finding of grave risk of harm. The Seventh Circuit’s decision represents a shift in American jurisprudence under the Hague Convention whereby courts more broadly interpret the grave risk of harm defense.

B. The facts and district court decision

Jennifer and Davy Van de Sande had two children, and were a married but estranged couple, and habitual residents of Belgium, Davy’s native country. A Belgian court awarded Davy custody of his two children through an ex parte decree. Jennifer, who was living with the children in the United States, refused to send them back to Belgium. Davy filed a lawsuit under the Hague Convention in order to have the two children returned to Belgium. Before the district court, Jennifer raised a grave risk of harm to the children defense. In support of this defense, Jennifer presented six affidavits, all claiming that Davy abused Jennifer and their older daughter. According to the affidavits, Davy began beating Jennifer in 1999. The beatings typically consisted of choking Jennifer, throwing her against a wall, and kicking her shins. The abuse occurred several times a week throughout the marriage, including when Jennifer was pregnant, and before and after their move to Belgium. Also, according to the affidavits, Davy’s mother joined in the beatings of her daughter-in-

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94 Id. at 571-72.
95 Morley, supra note 5, at 1.
96 Van de Sande, 431 F.3d at 569.
97 Id.
98 Id.
99 Id.
100 Id.
101 Id.
102 Id.
103 Id.
104 Id.
law. Jennifer complained to the Belgian police, but they said they could not do anything unless she went to a doctor to verify her injuries—which she did not do. Davy often beat Jennifer in the presence of the two children, causing them to cry. Davy also verbally abused Jennifer in the children’s presence, calling her a “cunt,” “whore,” “lazy fucking bitch,” and “lazy fat bitch.” Davy told the daughter “fuck mommy” and “Tell [sic] Mommy [sic] she’s a cunt.”

Davy also began physically abusing his daughter when she started wetting her bed. He would spank her, and he struck her in the side of her head on one occasion. Davy’s mother also struck the daughter in the head at least twice. In 2004, during a visit to Jennifer’s parents in the United States, Jennifer told Davy that she and the children would not be returning to Belgium. In response, Davy threatened to kill both her and the children. Jennifer told her father about Davy’s threats, the police were called, and an officer escorted Davy from Jennifer’s parents’ house.

Despite these affidavits, the district court granted summary judgment for Davy primarily on the ground that there was no indication that the Belgian legal system could not or would not protect the children. The court was also influenced by the fact that most of the physical and verbal abuse was directed at Jennifer, rather than the

105 Id.
106 Id.
107 Id.
108 Id.
109 Id.
110 Id.
111 Id.
112 Id.
113 Id.
114 Id.
115 Id.
116 Id.
children. Specifically, there was no accusations the Davy beat the younger boy, and the girl, although spanked and hit repeatedly, was not injured. Also, no expert evidence of the psychological effect of Davy’s conduct on either child was presented. The district court ordered the return of the children to Belgium. The only undertaking the judge inserted into the order was that Davy was to pay for their airfare to Belgium. The Seventh Circuit Court, however, reversed the district court’s decision and remanded the case for further hearings.

C. The Seventh Circuit’s decision

In its decision, the Seventh Circuit explicitly recognized that the remedy of return under the Hague Convention is problematic in cases where the abductor is the primary caretaker and a victim of domestic violence. The court reasoned that, assuming the affidavits submitted by Jennifer were accurate (which the court must assume because Davy filed the Motion for Summary Judgment), Jennifer satisfied the statutory requirement that evidence of risk of harm to the children be clear and convincing.

The Seventh Circuit then rejected the district court’s analysis that the Hague Convention is just a venue statute, designed to deter parents from international forum shopping in custody cases. The Seventh Circuit also rejected the district court’s reasoning that courts should look to whether the child’s habitual residence has adequate child

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117 Id. at 570.
118 Id.
119 Id.
120 Id. at 569.
121 Id.
122 Id. at 572.
123 Id. at 569.
124 Id. at 570.
125 Id.
protection laws. The court rejected this interpretation of the Hague Convention for several reasons. First, the court noted that there is a difference between “the law on the books and law as it is actually applied.” In particular, in domestic relations cases, abuse of children can often go undetected. The court argued that “to give a father custody of children who are at a great risk of harm from him, on the ground that they will be protected by the police of the father’s country, would be to act on an unrealistic premise.” Also, the court reasoned that nowhere in the Hague Convention or the language of the implementing statutes does it mention analyzing whether the laws of the petitioning parent’s country are good or whether such laws are zealously enforced; therefore, courts are going beyond the express language of the Convention.

Further, the court analyzed whether return with undertakings would be a more appropriate order. The court, however, had several concerns regarding the ordering of undertakings. First, the court was concerned that because the custody case was still pending in Belgium, the Belgian court would place the children in the care of a third party (or foster care) until the issue of custody was resolved by the Belgian courts. Instead of remaining in their mother’s custody in the United States, the Belgian court might place the children in a foster care institution, even though there was no suggestion that their mother was abusive, neglectful, or an otherwise unfit parent. The Seventh Circuit recognized that “return plus conditions (undertakings) could in many cases ‘properly accommodate the interest in the child’s welfare

126 Id.
127 Id. at 571.
128 Id.
129 Id.
130 Id.
131 Id.
132 Id.
133 Id. at 571-72.
134 Id. at 571.
135 Id.
to the interests of the country of the child’s habitual residence.”136

Further, courts and parents can more easily find evidence concerning a
grave risk of harm in the country of habitual residence.137 The court
also recognized that it may be more difficult and costly for the non-
abductor parent to prepare and present a court case in the country to
which the abductor has fled.138 The court, however, did not seem
persuaded by these arguments.139 The Court noted that in the case of
child abuse, “the balance may shift against [the] return plus conditions
[remedy].”140 According to the Seventh Circuit, the problem with
extensive undertakings is that such a practice would embroil the court
in the merits of the underlying custody issues—something the Hague
Convention specifically states that courts should not do.141 Also, the
court reasoned that undertakings are effective to preserve the status
quo, but that is not the goal when there is evidence that the status quo
is an abusive situation.142

Finally, the court noted that while concern with comity among
nations argues for narrow interpretation of the grave risk of harm
defense, “the safety of children is paramount.”143 The court then
ordered that the district court conduct an evidentiary hearing, since
Jennifer had presented sufficient evidence of a grave risk of harm to
her children.144

136 Id. at 571-72.
137 Id.
138 Id. at 572.
139 Id.
140 Id.
141 Id.
142 Id.
143 Id.
144 Id.
V. THE SEVENTH CIRCUIT EXPANDS
THE GRAVE RISK OF HARM DEFENSE

The Seventh Circuit has grasped what the Sixth and Eighth circuit courts have failed to—“while concern with comity among nations argues for narrow interpretation of the grave risk of harm defense . . . the safety of children is paramount.”145 Other circuit courts have created barriers to the grave risk of harm defense to the remedy of return in the case of domestic violence, while the Seventh Circuit is more willing to accept such a defense.146 Further, the Seventh Circuit recognizes the problems that have developed with regard to the remedy of return in cases of spousal abuse under the Hague Convention.147 Also, the court went further than other circuit courts in finding a valid grave risk of harm defense specifically by rejecting jurisprudence advocating courts analyze the laws of the country of habitual residence and issue undertakings to mitigate any grave risk of harm.148 The Seventh Circuit’s decision represents a general shift in Hague Convention jurisprudence by expanding the grave risk of harm defense to include cases of spousal abuse.149 The Seventh Circuit also preserved notions of international comity by rejecting the legal jurisprudence of courts analyzing of foreign country’s child protection laws and issuing undertakings.150

By expanding the scope of the grave risk of harm defense, American courts may have to focus more on the child’s physical and psychological well-being in Hague Convention cases, which some

145 Id. (emphasis added).
146 See, e.g., Blondin v. DuBois, 238 F.3d 153 (2d Cir. 20005); Friedrich v. Friedrich, 78 F.3d 1060 (6th Cir. 1996); Nunez-Escudero v. Tice-Menley, 58 F.3d 374 (8th Cir. 1995); but see Van de Sande, 431 F.3d at 572.
147 See generally Van de Sande, 431 F.3d 567.
148 See generally id.; see also Blondin, 238 F.3d at 153; Friedrich, 78 F.3d at 1060; Nunez-Escudero, 58 F.3d at 374.
149 Morley, supra note 5, at 1.
150 See Hoegger, supra note 9, at 202; see also Danaipour v. McLarey, 286 F.3d 1, 25 (1st Cir. 2002).
circuit courts view as an impermissible custody evaluation.\textsuperscript{151} As one commentator noted, “[There is a] notion that the integrity of the Convention as a whole requires that the well-being of individual children in hard cases must be sacrificed for the greater good of maintaining the integrity of the Hague Convention process.”\textsuperscript{152} The Seventh Circuit has rejected that notion.\textsuperscript{153}

A. Spousal abuse constitutes a grave risk of harm to the child.

First, the Seventh Circuit accepted the notion that spousal abuse harms the child.\textsuperscript{154} Unlike, the Eighth Circuit that rejected the notion that spousal abuse could lead to a grave risk of harm to the child, the Seventh Circuit accepted that although there may not be evidence that a spouse-abuser abused the children, there is still a grave risk of harm.\textsuperscript{155} Specifically, the Eighth Circuit seems to think that spouse-on-spouse violence has no effect on the children, considering its holding that there was no grave risk of harm to the children when the father and father-in-law abused the mother.\textsuperscript{156} However, as the First Circuit noted “credible social science literature establishes that serial spousal abusers are also likely to be child abusers.”\textsuperscript{157} The First Circuit also noted that both state and federal law have recognized that children are at increased risk of physical and psychological injury then they are in

\textsuperscript{151} Hoegger, \textit{supra} note 9, at 202.
\textsuperscript{152} \textit{Id}.
\textsuperscript{153} \textit{See generally Van de Sande,} 431 F.3d 567.
\textsuperscript{154} \textit{Id.} at 570.
\textsuperscript{155} \textit{See generally Van de Sande,} 431 F.3d 567; \textit{see also} Nunez-Escudero v. Tice-Menley, 58 F.3d 374, 377 (8th Cir. 1995).
\textsuperscript{156} \textit{See Nunez-Escudero,} 58 F.3d at 377; \textit{see also,} Tabacchi v. Harrison, No. 99 C 4130, 2000 WL 190576, at *13 (N.D. Ill. Feb, 10, 2000) (where although the husband abused his wife there was no grave risk of harm to the child); March v. Levine, 249 F.3d 462, 472 (6th Cir. 2001) (where the court found that there was no grave risk of harm to the children although there was a default judgment in a wrongful death action against the husband after the disappearance of the wife because there was only a “tenuous inference” that he might hurt the children).
\textsuperscript{157} Walsh v. Walsh, 221 F.3d 204, 220 (1st Cir. 2000).
contact with a spousal abuser. Specifically, in a congressional resolution passed in 1990, the House of Representatives found that: “Whereas the effects of physical abuse of a spouse on children include . . . the potential for future harm where contact with the batterer continues; whereas children often become targets of physical abuse themselves or are injured when they attempt to intervene on behalf of a parent.” The Seventh Circuit has agreed with the analysis of the First Circuit in Walsh; spousal abuse likely causes physical and psychological harm to the children. By recognizing that spousal abuse harms the child, the Seventh Circuit expanded the grave risk of harm defense.

B. Courts should not analyze the laws of foreign countries.

The Seventh Circuit also rejected the legal jurisprudence instructing courts to look at the laws of the country of habitual residence and the enforcement of those laws to determine if there is a grave risk of harm to the child. The Sixth, Eighth, and Second Circuits have held that even in cases of spousal or child abuse, a valid grave risk of harm defense can be mitigated and the remedy of return still applied if the laws of the country of habitual residence are adequate to protect the child. The Seventh Circuit, however, extended the reasoning in Walsh that courts should not look to the

158 Id.
160 See Van de Sande, 431 F.3d at 570-71; see also Walsh, 221 F.3d at 220.
161 See Van de Sande, 431 F.3d at 570-71; Morley, supra note 5, at 6-7.
162 Van de Sande, 431 F.3d at 571.
163 See, e.g., Blondin v. DuBois, 238 F.3d 153, 156-57 (2d Cir. 2001); Friedrich v. Friedrich, 78 F.3d 1060, 1069 (6th Cir. 1996); Nunez-Escudero v. Tice-Menley, 58 F.3d 374, 377-78 (8th Cir. 1995); see also Miller v. Miller, 240 F.3d 392, 403 (4th Cir. 2001) (where the court noted that it was confident that if the mother truly posed a danger to the children, the Ontario courts would adequately protect them); Tabacchi, 2000 WL 190576, at *15 (where the court noted that the mother failed to demonstrate that the Italian authorities would not adequately protect her and the child).
adequacy of the laws of the petitioning parent’s country.\textsuperscript{164} In \textit{Walsh}, the court implied that it was irrelevant whether the laws of the petitioning parent’s country were adequate.\textsuperscript{165} The court specifically stated, “[w]e have no doubt that the Irish courts would issue appropriate protective orders. That is not the issue. The issue is John’s [the husband] history of violating orders issued by any court, Irish or American.”\textsuperscript{166}

The Seventh Circuit extended this reasoning to conclude that courts should not look to the adequacy of a foreign country’s laws.\textsuperscript{167} The Seventh Circuit correctly noted that nowhere in the Hague Convention does it state that courts should analyze the laws of different countries to determine their adequacy.\textsuperscript{168} Further, just because a country may have adequate laws or even adequately enforce those laws does not mean that the grave risk of harm to the child will be mitigated.\textsuperscript{169} Most importantly, having United States courts evaluate the laws of other countries in Hague proceedings completely undermines the notion of comity, one of the primary goals of the Convention.\textsuperscript{170}

First, countries may have adequate law-on-the-books, but ineffective law enforcement or inadequate implementation of the laws.\textsuperscript{171} It is extremely difficult to measure to what extent law enforcement may or may not enforce particular laws or what common practices are in foreign countries.\textsuperscript{172} Also, because the abused spouse is not from the children’s country of habitual residence she may not be able to access the legal remedies available to her because she is

\textsuperscript{164} \textit{Van de Sande}, 431 F.3d at 571; \textit{Walsh}, 221 F.3d at 221.
\textsuperscript{165} \textit{Id.} \textit{Walsh}, 221 F.3d at 221.
\textsuperscript{166} \textit{Id.}
\textsuperscript{167} \textit{Van de Sande}, 431 F.3d at 571.
\textsuperscript{168} \textit{Id.}
\textsuperscript{169} \textit{Id.}
\textsuperscript{170} \textit{Hoegger}, supra note 9, at 202.
\textsuperscript{171} Weiner I, supra note 3, at 624-25.
\textsuperscript{172} \textit{See id.}
unfamiliar with the foreign legal system or because she may not speak the language.173

Second, although a country may have adequate laws that may be adequately enforced, it does not follow that an abusive parent or spouse will follow those laws.174 If a court finds there is a grave risk of harm, the harm cannot be mitigated even if a foreign country has adequate laws to protect the child or punish the abuser.175 Just because a parent may be adequately punished for domestic violence does not mean that the grave risk of harm to the child is mitigated, because if returned to the country of habitual residence a child will still be physically or psychologically harmed.176 The harm cannot be negated by adequate punishment after-the-fact.177

Finally, when American courts conduct an analysis of another country’s laws or enforcement of those laws it goes against notions of international comity.178 Specifically, if an American court determines that there is grave risk of harm to the child after analyzing the habitual country’s child custody laws, the American courts are sending the message that the laws of the country of habitual residence are “bad.”179 To preserve notions of international comity under the Hague Convention, courts should not pass judgment on the structure of foreign country’s family policy because to do so would undermine the laws of those countries.180 If courts ignore notions of comity, there is also a danger that courts will become “culturally imperialist.”181 For example, judges may send children and battered women back to countries that have similar cultural customs concerning the treatment

173 Id. at 625.
174 Van de Sande, 431 F.3d at 571.
175 Id.
176 Id.
177 Id.
178 Hoegger, supra note 9, at 202.
179 Id.
180 Id.
181 Id. at 203.
of women and children, but refuse to implement the remedy of return when the country of habitual residence is culturally dissimilar.\textsuperscript{182}

The Seventh Circuit rejected the Sixth, Second, and Eighth circuits’ reasoning that in order to determine whether or not there is a grave risk of harm to the child courts need to look at the adequacy of the laws of the country of habitual residence.\textsuperscript{183} By rejecting the jurisprudence that courts should analyze a foreign country’s laws, the Seventh Circuit essentially expanded the grave risk of harm defense by removing an extra barrier to that defense.\textsuperscript{184} Previously, under American jurisprudence not only would an abductor parent have to prove a grave risk of harm to the child, but also that the child could not be adequately protected by the laws in the country of habitual residence.\textsuperscript{185} By eliminating this extra step, the Seventh Circuit has broadened the scope of the grave risk of harm defense.\textsuperscript{186}

\textbf{C. Undertakings are inappropriate in cases of domestic violence.}

Unlike the Sixth and Second Circuit’s analysis, the Seventh Circuit reasoned that undertakings may not be appropriate in cases of domestic violence.\textsuperscript{187} The First Circuit also held that undertakings would not mitigate the grave risk of harm to the children in \textit{Walsh} because there was no guarantee that the husband would adhere to them.\textsuperscript{188} The Seventh Circuit again agreed with the First Circuit and further explained, “in cases of child abuse the balance may shift against return plus conditions.”\textsuperscript{189} While some circuit courts seem to

\begin{flushleft}
\textsuperscript{182} Id.
\textsuperscript{183} Id.\textsuperscript{183} Van de Sande v. Van de Sande, 431 F.3d 567, 570 (7th Cir. 2005).
\textsuperscript{184} See id.; see also Morley, supra note 5, at 1.
\textsuperscript{185} See, e.g., Blondin v. DuBois, 238 F.3d 153, 156-57 (2d Cir. 2001); Friedrich v. Friedrich, 78 F.3d 1060, 1069 (6th Cir. 1996); Nunez-Escudero v. Tice-Menley, 58 F.3d 374, 377-78 (8th Cir. 1995).
\textsuperscript{186} See Morley, supra note 5, at 1.
\textsuperscript{187} Van de Sande, 431 F.3d at 571-72; see also Danaipour v. McLarey, 286 F.3d 1, 25 (1st Cir. 2002).
\textsuperscript{188} Walsh v. Walsh, 221 F.3d 204, 221 (1st Cir. 2000).
\textsuperscript{189} Van de Sande, 431 F.3d at 572.
\end{flushleft}
accept undertakings as a valid remedy, the Convention does not state anything about undertakings or that they may be appropriate in order to effectuate a remedy of return.\textsuperscript{190} However, there is some argument that, although undertakings are absent in the Convention, they have become part of customary international law, as evidenced by the court rulings that apply them, thereby making them legally valid remedies.\textsuperscript{191}

Undertakings, however may be ineffective and have international enforcement problems.\textsuperscript{192} First, there is little evidence undertakings will deter spousal and child abusers.\textsuperscript{193} Studies on the dynamics of battering show that court orders have little deterrent effect.\textsuperscript{194} A court order or undertaking does not guarantee the safety of the victims for the same reasons that adequate laws do not – abusers do not always follow laws or court orders, and punishment after-the-fact does not negate the grave risk of harm to the children.\textsuperscript{195} In addition to problems in effectiveness, undertakings also have international enforcement problems.\textsuperscript{196} Once an abuser leaves the country that issued the undertakings, the undertakings will not be enforced unless the abuser travels to a country that specifically accepts them.\textsuperscript{197} Because undertakings are not in the language of the Hague Convention, not every country recognizes them.\textsuperscript{198} Also, there is no central agency that is commissioned to monitor the enforcement of

\textsuperscript{190} See Hoegger, supra note 9, at 195-96; see also Danaipour, 286 F.3d at 21 (“the concept of ‘undertakings’ is based neither in the Convention nor in the implementing legislation of any nation”).

\textsuperscript{191} Hoegger, supra note 9, at 195. (Customary International law is a type of law with two characteristics 1) where it is practiced over time as evidenced by court rulings applying accepted treaties and legislations and 2) where there is evidence of opinio juris “the idea that such state practice is legally mandated”.

\textsuperscript{192} Id. at 196.

\textsuperscript{193} Id. at 198.

\textsuperscript{194} Id.

\textsuperscript{195} Id.

\textsuperscript{196} Id.; see Danaipour v. McLarey, 286 F.3d 1, 23 (1st Cir. 2002).

\textsuperscript{197} Hoegger, supra note 9, at 198.

\textsuperscript{198} Id. at 198-99; see Danaipour, 286 F.3d at 23.
undertakings or to monitor children altogether after they are returned to the country of habitual residence. Essentially, issuing undertakings and analyzing the adequacy of a foreign countries and laws are similarly problematic—neither ensure that a child will be protected before the child is abused.

Undertakings, like analyzing a foreign country’s laws, also undermine notions of international comity. By issuing undertakings, an American court will directly be telling another country how to structure its family law policy. Even more so than simply evaluating a foreign country’s laws, undertakings usurp the laws of the country of habitual residence by telling the country specific legal steps it needs to take upon return of the child.

The Seventh Circuit, in particular, seemed concerned with the fact that to adequately protect a child from potential abuse, courts would have to adopt extensive undertakings. The Seventh Circuit specifically noted that extensive undertakings would entangle the court in the merits of the underlying custody dispute, while the Hague Convention prohibits such an entanglement. Second, extensive undertakings would “dilute the force of the Article 13(b) exception.” Allowing the remedy of return when there is a grave risk of harm defense, so long as there are adequate undertakings, goes against the intent of having defenses to the remedy of return.

By rejecting the notion that undertakings are appropriate in cases of domestic violence, the Seventh Circuit again expanded the grave

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199 Hoegger, supra note 9, at 199.
200 See id. at 198, see also Weiner I, supra note 3, at 679.
201 See Daniapour, 286 F.3d at 23; Hoegger, supra note 9, at 202.
202 Hoegger, supra note 9, at 202; see Daniapour, 286 F.3d at 25 (where the court reasoned that notions of International comity were violated where the district court issued undertakings with the expectation that the “Swedish court would simply copy and enforce them”).
203 Hoegger, supra note 9, at 202; see Daniapour, 286 F.3d at 25.
204 Van de Sande v. Van de Sande, 431 F.3d 567, 571-72 (7th Cir. 2005).
205 Id.
206 Id.
207 See Hoegger, supra note 9, at 195.
risk of harm defense under the Hague Convention by eliminating another barrier.208 The Seventh Circuit also promoted the notion of preserving comity among countries, by suggesting that extensive undertakings are inappropriate because they undermine and usurp the laws of foreign countries.209

D. The Second Circuit set the bar too high for a grave risk of harm defense.

While the Second Circuit in Blondin, did find that there was a valid grave risk of harm defense, the court’s ruling was too narrow.210 Specifically, the court found that there was a grave risk of harm only because the children would suffer from post-traumatic stress disorder from merely returning to the country of France and the court limited its holding to the facts of the case at hand.211 The Second Circuit still held that it was valid to look at the adequacy of the child protection laws in the petitioning parent’s country and to look at the possibility of “extensive undertakings.”212 The Seventh Circuit’s holding in Van de Sande, on the other hand, properly recognizes that the grave risk of harm defense extends to many circumstances (including domestic violence), not just the narrow situation of post-traumatic stress disorder.213

As the First Circuit noted in Walsh, the Hague Convention provides for defenses to the remedy of return.214 The Second Circuit, however, limited the defense to a unique fact pattern.215 Further, the

208 See Morley, supra note 5, at 7.
209 See Hoegger, supra note 9, at 202; Danaipour, 286 F.3d at 25.
210 See Hoegger, supra note 9, at 189; see also Weiner I, supra note 3, at 660-61.
211 Blondin v. DuBois, 238 F.3d 153, 162 (2d Cir. 2001).
212 Id. at 163.
213 Compare Van de Sande v. Van de Sande, 431 F.3d 567, 570 (7th Cir. 2005), with Blondin, 238 F.3d at 163.
214 Walsh v. Walsh, 221 F.3d 204, 222 (1st Cir. 2000).
215 See Blondin, 238 F.3d at 163.
Second Circuit still considered possible undertakings.\textsuperscript{216} The Seventh Circuit takes a more reasonable approach to the grave risk of harm defense, instead of improperly limiting it to such a narrow set of circumstances.\textsuperscript{217} While the grave risk of harm defense is a limited defense, the Seventh Circuit correctly held that the limited defense includes cases of domestic violence.\textsuperscript{218}

\textbf{E. Criticisms of expanding the grave risk of harm defense}

Some courts and scholars are concerned that by expanding the grave risk of harm defense, although benefiting individual children, may undermine some of the important policy considerations underlying the Hague Convention.\textsuperscript{219} For example, expanding the grave risk of harm defense will ultimately mean that a child’s physical and psychological well-being will be raised in Hague Convention proceedings.\textsuperscript{220} Courts are concerned that by analyzing a child’s physical and psychological welfare they will in effect be making a custody determination.\textsuperscript{221} However, a Hague Convention proceeding is not supposed to be used for the court to make any determination of future custody of the child—it is merely supposed to determine which country has jurisdiction to make the custody determination.\textsuperscript{222} Looking at whether there is a grave risk of harm to the child, however, does not necessarily mean that courts will be making a custody determination.\textsuperscript{223} The Convention specifically allows for the grave risk of harm defense; therefore, under the narrow circumstance of this

\textsuperscript{216} See id.
\textsuperscript{217} See Van de Sande, 431 F.3d at 570; Hoegger, supra note 9, at 189; see also Weiner I, supra note 3, at 660-61.
\textsuperscript{218} See Van de Sande, 431 F.3d at 570; Walsh, 221 F.3d at 220.
\textsuperscript{219} See Morley, supra note 5, at 1.
\textsuperscript{220} Id. at 1-2.
\textsuperscript{221} Id. at 1-2.
\textsuperscript{222} Id. at 1.
\textsuperscript{223} See generally Weiner I, supra note 3.
defense courts must look to the well-being of the child. Thus, courts can and should look at the well-being of children within the context of this defense, which does not constitute a custody determination.

Some other concerns that courts have with expanding the grave risk of harm defense is that it may take more time to litigate Hague Convention proceedings and there is more possibility for abuses of the defense. First, if parents see that a grave risk of harm defense is successful in negating the remedy of return, they may raise it in all Hague Convention proceedings, regardless of whether domestic violence has actually occurred. Also, Hague Convention proceedings will be lengthened if courts are required to delve into facts regarding domestic violence and potential harm to the child. While expediency is important in Hague Convention proceedings, ensuring children are not exposed to harm should outweigh concerns that proceedings will take more time.

Finally, courts are concerned that expanding the grave risk of harm defense will violate notions of international comity because it will appear as if American courts are making judgment calls about a foreign country’s ability to protect children in cases of domestic violence. If a court determines that there is a grave risk of harm to the child and refuses to return the child to the country of habitual residence, it still sends the message that the country of habitual residence has not and will not adequately protect the child. Specifically the Explanatory Report on the Hague Convention noted that if the defenses to the Convention are regularly invoked, the entire

\[224 \text{ See Walsh v. Walsh, 221 F.3d 204, 221-22 (1st Cir. 2000).} \]
\[225 \text{ See generally Van de Sande v. Van de Sande, 431 F.3d 567 (7th Cir. 2005); see also Hoegger, supra note 9, at 187-88.} \]
\[226 \text{ See Weiner I, supra note 3, at 697-98.} \]
\[227 \text{ See id.} \]
\[228 \text{ See id. at 694.} \]
\[229 \text{ See id. at 698.} \]
\[230 \text{ See Van de Sande, 431 F.3d at 572.} \]
structure of the Convention would collapse because it would be deprived of the “spirit of mutual confidence.” However, courts violate notions of international comity more by analyzing a foreign country’s laws and by issuing extensive undertakings. When a court analyzes a foreign country’s laws it is directly critiquing those laws—a gross violation of international comity. Also, when a court issues undertakings it is directly usurping a foreign country’s laws, substituting its own judgment for that of the foreign country. These types of analysis violate comity more than merely looking at the harm to the child and denying the remedy of return.

Finally, expanding the grave risk of harm defense is arguably in direct contrast to the theory that courts are to narrowly interpret the defenses under the Hague Convention. According to the U.S. State Department the express purpose of the Convention is to return abducted children to the country of habitual residence, thus, any expansion of the grave risk of harm defense arguably undermines this purpose. However, the Convention explicitly allows courts to suspend the remedy of return in cases where there is a grave risk of harm to the child. Some circuit courts narrowed the defense so much that it would be nearly impossible to prove a grave risk of harm to the child (i.e. only in cases of “war, famine, or disease”). Also, circuit courts narrowed the defense by adding extra factors to prove a

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232 Id.
233 See Hoeger, supra note 9, at 202; see also Danaipour v. McLarey, 286 F.3d 1, 25 (1st Cir. 2002).
234 See Hoeger, supra note 9, at 202; see also Danaipour, 286 F.3d at 25.
235 See Hoeger, supra note 9, at 202; see also Danaipour, 286 F.3d at 25.
236 See Hoeger, supra note 9, at 202; see also Danaipour, 286 F.3d at 25.
237 Feders v. Evans-Feder, 63 F.3d 217, 226 (where the court noted that “exceptions are to be narrowly drawn, lest their application undermines the express purposes of the Convention”).
239 See Walsh v. Walsh, 221 F.3d 204, 221-22 (1st Cir. 2000).
240 See, e.g., Friedrich v. Friedrich, 78 F.3d 1060, 1069 (6th Cir. 1996).
grave risk of harm that are absent in the Convention.241 Specifically, a parent would have to prove that the laws of the country of habitual residence were inadequate and that undertakings would be ineffective.242 By narrowing the defense to this extent, circuit courts went well beyond the express language of the Convention.243 In Van de Sande, the Seventh Circuit, although expanding the defense in American jurisprudence, recognizes the proper scope of the grave risk of harm defense in the context of the Hague Convention.244

CONCLUSION

The Seventh Circuit’s decision in Van de Sande represents a growing trend in American jurisprudence to expand the grave risk of harm defense under the Hague Convention.245 Specifically, the Seventh Circuit has rejected the legal doctrines of courts evaluating the law of the country of habitual residence and issuing undertakings.246 By eliminating these types of legal analysis, abductor parents in Hague Convention proceedings only need to prove a grave risk of harm to the child, not the inadequacy of a foreign country’s laws or the inadequacy of undertakings.247 The Seventh Circuit has also made a grave risk of harm defense possible in cases of spousal abuse by recognizing that spousal abuse can harm a child psychologically and potentially physically because of the greater likelihood that a spousal abuser will also abuse the child.248

241 See Morley, supra note 5, at 1; see also Walsh, 221 F.3d at 218.
242 See, e.g., Blondin v. DuBois, 238 F.3d 153, 163 (2d Cir. 2001); Friedrich, 78 F.3d at 1069, Nunez-Escudero v. Tice-Menley, 58 F.3d 374, 377-78 (8th Cir. 1995).
243 See Van de Sande v. Van de Sande, 431 F.3d 567, 571 (7th Cir. 2005); see also Hoegger, supra note 9, at 195.
244 See Morley, supra note 5, at 1; see also Walsh, 221 F.3d at 218.
245 See Morley, supra note 5, at 1.
246 Van de Sande, 431 F.3d at 571-72.
247 See generally id.
248 Id. at 570.
The Seventh Circuit has also properly preserved comity among nations in Hague proceedings.249 When courts analyze the laws of the country of habitual residence or issue undertakings, they are undermining a foreign country’s laws.250 One of the fundamental purposes of the Hague Convention is to prevent this; thus, the Seventh Circuit is promoting interests of international comity.251

In the past, the circuit courts placed the policy considerations of narrowly interpreting the Hague Convention over the well-being of individual children by overly limiting the grave risk of harm defense through such barriers as evaluating the laws of the country of habitual residence and issuing undertakings.252 In Van de Sande the Seventh Circuit properly placed children first by restoring the grave risk of harm defense to its proper scope under the Hague Convention.253

249 See id. at 571-72; see also Hoegger, supra note 9, at 202.
250 See Hoegger, supra note 9, at 202.
252 See Morley, supra note 5, at 1.
253 See Van de Sande, 431 F.3d at 571-72; see also Morley, supra note 5, at 1.
GAMING THE SYSTEM:
THE SEVENTH CIRCUIT PREFERENCES ITS
VIDEO GAMES VIOLENT, NOT SEXY

MICHAEL J. ASCHENBRENER *


INTRODUCTION

The First Amendment proscribes Congress from enacting laws that restrict the content of speech.1 Despite the unequivocal language of the First Amendment, the United States Supreme Court has consistently held that it does not protect obscenity.2 The Court has offered two primary reasons for not protecting obscenity: 1) obscenity contributes nothing to society; and 2) obscenity was simply never intended to be protected.3

In contrast to obscene speech, violent speech gets full First Amendment protection.4 While the Court states that obscenity categorically contributes nothing to society, it reasons that even the

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1 U.S. CONST. amend. I, § 2.
3 See Roth, 354 U.S. at 483-84.
most despicable, hateful, violent speech benefits society in some way, and is thus deserving of constitutional protection.\(^5\)

In 2005, the U.S. District Court for the Northern District of Illinois ruled that two Illinois statutes aimed at restricting the sale of violent and sexually explicit video games to minors violated the First Amendment.\(^6\) The court determined that both the Illinois Violent Video Games Law (“VVGL”) and Illinois Sexually Explicit Video Games Law (“SEVGL”) were content-based restrictions that could be justified only by compelling interests and narrowly tailored plans.\(^7\) The State appealed the SEVGL ruling only, and the U.S. Court of Appeals for the Seventh Circuit affirmed the district court’s ruling that the SEVGL required and did not pass strict scrutiny.\(^8\)

While both statutes failed strict scrutiny at trial, the VVGL and SEVGL failed for different reasons. The district court determined the VVGL did not encompass a compelling interest,\(^9\) whereas the SEVGL did encompass a compelling interest, but was not narrowly tailored.\(^10\) The court recognized the importance of protecting minors from violent content, but held that it did not provide a constitutional basis to regulate speech.\(^11\)

While the VVGL got hung up in compelling interest analysis, the trial court simply assumed protecting children from sexual-themed content is compelling, and moved on to narrow tailoring analysis.\(^12\) The Seventh Circuit applied the same cursory compelling interest analysis to the SEVGL.\(^13\)

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\(^5\) See Roth, 354 U.S. at 484.
\(^6\) Entm’t Software Ass’n v. Blagojevich (ESA I), 404 F. Supp. 2d 1051, 1055 (N.D. Ill. 2005), aff’d, 469 F.3d 641 (7th Cir. 2006).
\(^7\) Id. at 1072, 1078.
\(^8\) Entm’t Software Ass’n v. Blagojevich (ESA II), 469 F.3d 641, 644 (7th Cir. 2006).
\(^9\) ESA I, 404 F. Supp. 2d at 1073-76.
\(^10\) Id. at 1080.
\(^11\) Id. at 1073-76.
\(^12\) Id. at 1080.
\(^13\) ESA II, 469 F.3d at 646.
This Note will contend that while both the trial court and Seventh Circuit’s ruling were consistent with Supreme Court precedent, the disparate levels of protection afforded violent and sexually explicit speech are legally and logically inconsistent. This inconsistency presents different problems for adults and minors, and requires different remedies. For adults, obscenity should be afforded the same constitutional protection as violent content. And in the realm of minors, the notion of protecting children from harmful content should apply with as much rigor to violent content as it does to sexually explicit content.

Section I will detail the relevant history of First Amendment protection of violent and sexually explicit materials. Section II will examine the district court and Seventh Circuit applications of the relevant First Amendment and obscenity tests in *ESA I* & *ESA II*, respectively. Section III will explore how the Seventh Circuit and Supreme Court should alter obscenity law for adults and content restrictions for minors.

I. THE FIRST AMENDMENT PROTECTS VIOLENT SPEECH BUT DOES NOT PROTECT OBSCENITY

A. Content-based Restrictions

With limited exceptions, the First Amendment prevents the government from enacting laws that restrict expression because of its content.\(^\text{14}\) As a result, any restriction on the content of speech or expression is presumptively invalid.\(^\text{15}\)

Our political system and culture depend on the principle that citizens, rather than government, decide what messages are worth stating or receiving.\(^\text{16}\) Instead, citizens bear this responsibility individually, and any attempt by the government to restrict expression


\(^{15}\) *Id.*

poses the risk that it is attempting to stifle unpopular ideas.\textsuperscript{17} Thus, courts apply the most stringent tool of analysis, strict scrutiny, to any content-based restriction.\textsuperscript{18} Strict scrutiny demands that content-based restrictions “must be narrowly tailored to promote a compelling government interest.”\textsuperscript{19}

There are, however, several limited exceptions to the First Amendment’s ban on content-based restrictions.\textsuperscript{20} Namely, the First Amendment does not protect child pornography\textsuperscript{21} or libel.\textsuperscript{22}

And although obscenity was long assumed unprotected, it wasn’t until 1957 when the Supreme Court expressly ruled in \textit{Roth v. United States} that the Constitution affords obscene content no protection.\textsuperscript{23} In \textit{Roth}, the Court first explained that the “unconditional phrasing of the First Amendment” is not actually unconditional.\textsuperscript{24} It also explained that the purpose of the First Amendment is “to assure [the] unfettered interchange of ideas for the bringing about of political and social changes desired by the people.”\textsuperscript{25}

Thus, the First Amendment protects all speech of social importance, regardless of its nature or content, because it furthers the constitutional purpose of promoting social and political discourse.\textsuperscript{26} But the Court determined that any value obscenity might provide “is clearly outweighed by the social interest in order and morality.”\textsuperscript{27} And because obscenity is not protected, the Court decided it didn’t need to

\begin{thebibliography}{27}
\bibitem{id} \textit{Id.}
\bibitem{see id} \textit{See id. at 642.}
\bibitem{us v. playboy} U.S. v. Playboy Entm’t Group, 529 U.S. 803, 813 (2000).
\bibitem{e.g.} \textit{E.g.}, R.A.V. v. City of St. Paul, 505 U.S. 377, 382-83 (1992).
\bibitem{beauharnais v. people of state of ill.} Beauharnais v. People of State of Ill., 343 U.S. 250, 266 (1952).
\bibitem{354 u.s.} 354 U.S. 476, 481, 485 (1957).
\bibitem{id at 483.} \textit{Id. at 483.}
\bibitem{id at 484.} \textit{Id. at 484.}
\bibitem{id.} \textit{Id.}
\bibitem{id (internal quotation marks omitted) (quoting chaplinsky v. new hampshire, 315 u.s. 568, 571-72 (1942))} \textit{Id. (internal quotation marks omitted) (quoting Chaplinsky v. New Hampshire, 315 U.S. 568, 571-72 (1942)).}
\end{thebibliography}
consider exactly how obscenity diminishes order or morality.\textsuperscript{28} This
form of circular reasoning pervades obscenity law and is
representative of the underlying problem with obscenity law.\textsuperscript{29}

Although the Court was certain that obscenity is per se excluded
from First Amendment protection, it was not as certain of just how to
define obscenity.\textsuperscript{30} It ultimately held that obscenity is not synonymous
with sex, but rather “deals with sex in a manner appealing to prurient
interest.”\textsuperscript{31} This, of course, begs the question of what exactly
“prurient” means. The Court cited several sources to define prurient
and prurientcy.\textsuperscript{32} These definitions include:

- “material having a tendency to excite lustful
  thoughts,”\textsuperscript{33}
- “uneasy with desire or longing;”\textsuperscript{34}
- “lascivious desire or thought;”\textsuperscript{35}
- “[a] thing is obscene if, considered as a whole, its
  predominant appeal is to prurient interest, i.e., a
  shameful or morbid interest in nudity, sex, or
  excretion, and if it goes substantially beyond
  customary limits of candor in description or
  representation of such matters.”\textsuperscript{36}

\textsuperscript{28} See Roth, 354 U.S. at 486-87.
\textsuperscript{29} See, e.g., id. at 486-87 (arguing that it is irrelevant whether obscenity
actually causes harm because it is not protected).
\textsuperscript{30} Id. at 487-88.
\textsuperscript{31} Id. at 487.
\textsuperscript{32} Id. at 488 n.20.
\textsuperscript{33} Id.
\textsuperscript{34} Id. at 488 n.20 (citing WEBSTER’S NEW INTERNATIONAL DICTIONARY
(Unabridged, 2d ed. 1949)).
\textsuperscript{35} Roth, 354 U.S. at 488 n.20 (citing WEBSTER’S NEW INTERNATIONAL
DICTIONARY (Unabridged, 2d ed. 1949)).
\textsuperscript{36} Roth, 354 U.S. at 488 n.20 (citing MODEL PENAL CODE § 207.10(2)
(Tentative Draft No. 6 1957)).
The Court concluded its analysis of obscenity generally by stating that government intrusion on freedom of speech must only occur when necessary to protect more important interests. Obscenity, the Court decided, encroached on more important interests. While it does not explicitly state what those interests were, the opinion suggested the interests were “social order and morality.” But how obscenity diminishes social order and morality went unexplored by the Court. We’re essentially left to take the Court’s word for it.

Interestingly, the Court conceded that states may regulate obscenity merely for the “lustful thoughts” it provokes, and not because it causes lawlessness, harm, or even “antisocial conduct.” This stands in stark contrast to the Court’s stance on violent speech, which cannot be regulated merely for thoughts provoked or advocated.

B. Evolution of Obscenity Law


In 1968, the Court decided the seminal case *Ginsberg v. New York.* Today, *Ginsberg* stands for the proposition that states may regulate sexual materials intended for minors that they would not be able to regulate for adults.

In *Ginsberg,* the Court upheld the constitutionality of a New York statute regulating sales of sexually explicit magazines to minors. The

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37 *Roth,* 354 U.S. at 488.
38 See id.
39 Id. at 485.
40 Id. at 486.
41 *C.f.,* Brandenburg v. Ohio, 395 U.S. 444, 449 (1969) (statutes regulating “mere advocacy” of violence “fall[] within the condemnation of the First and Fourteenth Amendments”).
42 390 U.S. 629 (1968).
43 See id. at 637.
44 Id. at 631, 633.
New York statute adapted the three-part test for determining obscenity from *A Book Named “John Cleland’s Memoirs of a Woman of Pleasure” v. Attorney General of the Commonwealth of Massachusetts* in order to define obscenity “on the basis of its appeal to minors.”\(^45\)

By upholding the constitutionality of the statute, the Court also upheld the concept of “variable obscenity.”\(^46\) Variable obscenity is the notion that content that is merely indecent when intended for adults may be obscene when intended for children.\(^47\)

Notably, the Court premised its decision on the basis of potential harm sexually explicit materials may cause to minors.\(^48\) This represents a departure from *Roth*, which allowed obscenity restrictions solely for the “lustful thoughts” provoked.\(^49\) In *Ginsberg*, the Court held that states may regulate sales of sexually explicit materials to minors by finding a rational basis for the conclusion that the material is harmful to minors.\(^50\) While this does not require scientific certainty of harm,\(^51\) by premising the decision on potential harm rather than mere thoughts incited, *Ginsberg* required more of legislatures than *Roth*.


While the Court held in *Roth* that obscenity is not protected speech,\(^52\) it did not set a clear test for determining what constitutes

\(^{45}\) *Id.* at 635.
\(^{46}\) *Id.* at 636.
\(^{47}\) *Id.* (“[T]he concept of obscenity or of unprotected matter may vary according to the group to whom the questionable material is directed or from whom it is quarantined.” (internal quotation marks omitted) (quoting *Bookcase, Inc. v. Broderick*, 18 N.Y.2d 71, 75 (1966))).
\(^{48}\) *Ginsberg*, 390 U.S. at 640-41.
\(^{50}\) *Ginsberg*, 390 U.S. at 641.
\(^{51}\) *Id.* at 642-43.
\(^{52}\) *Roth*, 354 U.S. at 485.
obscenity until 1973 when it decided *Miller v. California*. In *Miller*, the Court articulated a three-part test for juries to apply to determine whether content is obscene:

(a) whether ‘the average person, applying contemporary community standards’ would find that the work, taken as a whole, appeals to the prurient interest;

(b) whether the work depicts or describes, in a patently offensive way, sexual conduct specifically defined by the applicable state law; and

(c) whether the work, taken as a whole, lacks serious literary, artistic, or scientific value.

This test, while very similar to the *Memoirs* formulation and the *Ginsberg* test, differs in one principal way. The final prong of the *Miller* test requires triers of fact consider “whether the work, taken as a whole, lacks serious literary, artistic, or scientific value,” while the *Memoirs* test used the term “utterly without redeeming social importance.”

*Miller*’s primary legacy is its test for obscenity, but the Court also took great pains in the opinion to affirm *Roth*. It stated that categorizing obscenity as a part of the “free and robust exchange of ideas and political debate” demeans the First Amendment and all that it represents. It further stated that First Amendment protection was designed to allow the exchange of ideas to stimulate political and

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54 *Miller*, 413 U.S. at 24.

55 Id.

56 See ESA II, 469 F.3d 641, 648 (7th Cir. 2006).

57 *Miller*, 413 U.S. at 24-25.

58 See id. at 34-35.

59 Id. at 34.
social change. But rather than recognize the potential role obscenity could play in bringing about change in society’s attitudes toward sex, the Court decided that obscenity cannot contribute to this exchange or stimulate social change.

Furthermore, Miller also represents a step backward from Ginsberg because the Court spoke in Ginsberg to the harms sexually explicit materials may cause minors as a basis for regulation, but the Court abandoned this line of reasoning in Miller. Rather, the Court reverted back to the Roth line of reasoning that obscenity may be regulated simply because it is offensive.

C. Violent speech receives full First Amendment protection.

In contrast to obscene speech, the Supreme Court has held that the Constitution affords the full protection of the First Amendment to violent expression. This means that states may only regulate violent speech where it is “directed to inciting or producing imminent lawless action” and “is likely to incite or produce such action.” This test immunizes advocacy of violence from government control. For government regulation to succeed, the expression must do more than merely “increase[] the chance an unlawful act will be committed at some indefinite time in the future.” In this way, the test distinguishes between mere advocacy of violence and words designed to incite imminent lawless action.

This test, of course, differs significantly from the Miller test for obscenity, which only requires a showing that content appeals to

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60 Id. at 34-35 (citing Roth v. U.S., 354 U.S. 476, 484 (1957)).
61 See Miller, 413 U.S. at 35.
62 See id.
64 Id.
65 Id. at 448.
67 Brandenburg, 395 U.S. at 448-49.
prurient interests.68 Obscenity need not actually have any causal relationship with harm,69 but violence, on the other hand, must be shown that it is both designed to cause and likely to cause imminent harm.70

II. APPLICATION OF THE BRANDENBURG TEST FOR VIOLENT SPEECH AND THE GINSBERG/MILLER TEST FOR OBSCENITY IN ESA I & II

A. ESA I

The Seventh Circuit recently had the rare opportunity to apply both the Brandenburg test for violent content and the Ginsberg/Miller paradigm for sexually explicit content when it affirmed a case from the Northern District of Illinois.71

ESA I involved a challenge to two statutes restricting the sale of certain video games to minors.72 Groups representing developers, distributors, and retailers of video games challenged the constitutionality of the Illinois Violent Video Game Law (“VVGL”) and the Sexually Explicit Video Game Law (“SEVGL”).73

1. VVGL did not include any compelling interests.

All parties in ESA I agreed the VVGL was a content-based restriction subject to strict scrutiny analysis.74 But the state claimed it had five compelling interests in regulating violent video games for minors:

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70 Brandenburg, 395 U.S. at 447.
71 ESA I, 404 F. Supp. 2d 1051 (N.D. Ill. 2005) aff’d, 469 F.3d 641 (7th Cir. 2006).
72 Id. at 1055-56.
73 Id. at 1055.
74 Id. at 1072.
1) preventing violent, aggressive, and asocial behavior;
2) preventing psychological harm to minors who play such games;
3) eliminating societal factors that may inhibit the physiological and neurological development of its youth;
4) facilitating the maturation of Illinois’ children into law-abiding, productive adults; and,
5) assisting parents in protecting their children from such games.75

While the district court agreed that these interests were important, it countered that the statute could only regulate violent speech when the State demonstrates that the anticipated “harms are real, not merely conjectural.”76 Thus, the State had to prove that the video games it sought to regulate actually caused the listed harms.77

Under Brandenburg, states must do more than assert that violent video games increase the likelihood that children will commit acts of violence at some undetermined time.78 Rather, the State may only restrict the sale of violent video games to minors if the games are “directed to inciting or producing imminent lawless action, and [are] likely to incite or produce such action.”79

The district court held the VVGL failed the Brandenburg test because the State offered no evidence that the purpose of violent video games is to incite violence, and because the expert testimony and evidence offered at trial did not provide a causal link between playing

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75 Id.
76 Id. (internal quotation marks omitted) (quoting Turner Broad. Sys. v. FCC, 512 U.S. 622, 664 (1994)).
77 ESA I, 404 F. Supp. 2d at 1072.
78 Id. at 1073.
79 Id. (internal quotation marks omitted) (quoting Brandenburg v. Ohio, 395 U.S. 444, 447 (1969)).
the games and minors committing acts of violence. For these reasons, the district court found the VVGL did not promote a compelling government interest.

Additionally, the interests of preventing developmental harm to minors and assisting parents in shielding children from inappropriate material also failed as compelling interests. Specifically, the interest of preventing developmental harm failed because controlling access to “allegedly dangerous” speech is the responsibility of parents, not the State. Further, the interest of assisting parents in this responsibility is under-inclusive as applied in the VVGL because it did not assist parents with other media, such as TV and movies.

The court also dismissed the State’s argument that Ginsberg should apply in this matter, which would allow it to regulate content that is inappropriate for minors. The court rejected the State’s argument because it failed to account for the fact that the statute at issue in Ginsberg did not regulate protected speech—it regulated obscenity, which is unprotected.

In addition to failing the compelling interest prong of strict scrutiny, the district court also determined that even if the statute had encompassed a compelling interest, it would have failed strict scrutiny on narrow tailoring grounds. The court agreed that the statute did not intrude on the rights of adults, but the court still concluded that the plan was not narrowly tailored because the statute’s definition of violence would likely lead video game developers to diminish the amount of violence in the games to avoid regulation. This, in turn,
would affect the rights of adults by reducing the number of violent titles available to them.\textsuperscript{89}

The court also found that the VVGL’s definition of violent video games was unconstitutionally vague.\textsuperscript{90} The statute defined violent video games as those “including depictions of or simulations of human-on-human violence in which the player kills or otherwise causes serious physical harm to another human.”\textsuperscript{91} While the court would have normally found this definition sufficiently clear, it found it unclear in the “fanciful” context of video games because of the blurry line in the video game world among humans, zombies, and mutants.\textsuperscript{92}

This was not the first time a federal court in the Seventh Circuit examined a statute regulating violent video games for minors.\textsuperscript{93} As the district court noted, \textit{ESA I} was governed by \textit{American Amusement Machine Ass’n v. Kendrick (“AAMA”).}\textsuperscript{94} In \textit{AAMA}, the Seventh Circuit analyzed the constitutionality of an ordinance that limited minors’ access to violent video game machines located in public places.\textsuperscript{95}

2. SEVGL did not include a narrowly tailored plan.

Just as it did with the VVGL, the district court held the SEVGL was unconstitutional because it did not satisfy strict scrutiny.\textsuperscript{96} But unlike with the VVGL, the court struck down the statute on narrow tailoring grounds, not because it lacked a compelling interest.\textsuperscript{97}

\begin{itemize}
\item \textsuperscript{89} Id.
\item \textsuperscript{90} Id. at 1077.
\item \textsuperscript{91} Id.
\item \textsuperscript{92} Id.
\item \textsuperscript{93} \textit{See id.} at 1072 (citing Am. Amusement Mach. Ass’n v. Kendrick (“AAMA”), 244 F.3d 572 (7th Cir. 2001)).
\item \textsuperscript{94} \textit{ESA I}, 404 F. Supp. 2d at 1072.
\item \textsuperscript{95} \textit{AAMA}, 244 F.3d 572.
\item \textsuperscript{96} \textit{ESA I}, 404 F. Supp. 2d at 1081.
\item \textsuperscript{97} \textit{See id.}
\end{itemize}
In applying strict scrutiny, the court assumed the statute satisfied the compelling interest requirement without offering any analysis. The court premised this conclusion on the statute’s failure to include certain elements of \textit{Ginsberg/Miller} test for obscenity. Namely, the statute failed to include the “as a whole” language of the second prong of the \textit{Ginsberg/Miller} test and excluded the third prong entirely. By omitting the last prong of the \textit{Ginsberg/Miller} test, the statute would necessarily regulate “large amounts of nonpornographic material with serious education or other value.” Without the final prong, the statute would regulate games based “on one scene without regard to the value of the game as a whole.” Such a broad statute cannot be justified even by the compelling interest of protecting harm to minors.

\textbf{B. ESA II: The Seventh Circuit affirms the district court’s ruling.}

In \textit{ESA I}, the district court struck down both the VVGL and SEVGL on First Amendment grounds. The State of Illinois then appealed the district court’s decision regarding the SEVGL only. Judge Williams, writing for the Seventh Circuit and joined by Judge Bauer and Judge Rovner, affirmed the district court’s ruling primarily because she found the SEVGL insufficiently narrowly tailored.

\begin{itemize}
  \item Id at 1079.
  \item Id. at 1080.
  \item Id. at 1080.
  \item Id.
  \item Id. (quoting Reno v. ACLU, 521 U.S. 844, 877 (1997)) (internal quotation marks omitted).
  \item \textit{ESA I}, 404 F. Supp. 2d at 1080.
  \item See id.
  \item Id. at 1076, 1081.
  \item ESI II, 469 F.3d 641, 643 (7th Cir. 2006).
  \item Id.
\end{itemize}
The Seventh Circuit agreed with the district court that the SEVGL was a content-based restriction and thus demanded strict scrutiny under the First and Fourteenth Amendments.108

The court held the State’s asserted interest—“shielding children from indecent sexual material and in assisting parents in protecting their children from that material”109—was most surely a compelling interest.110

It then moved on to narrow tailoring and referred back to AAMA, in which the court held that legislation shall not unduly burden the First Amendment rights of minors.111 Moreover, it is not enough that a statute not affect the First Amendment rights of minors.112 Rather, the State must choose the least restrictive means available to regulate indecent material for minors.113 Whether a statute employs the least restrictive means possible is determined by applying either Ginsberg or Miller.114

Because the SEVGL’s definition of “sexually explicit” did not conform to the full three-part test from either Ginsberg or Miller, “the State failed to narrowly tailor the statute and created a statute that is unconstitutionally overbroad.”115 The SEVGL did not include the third

108 Id. at 646.
109 ESA II, 469 F.3d at 646 (internal quotation marks omitted) (citing Br. of Pet’r-Appellant Governor Rod Blagojevich at 16, ESA II, 469 F.3d 641 (7th Cir 2006) (No. 06-1012), 2006 WL 652392).
110 ESA II, 469 F.3d at 646 (quoting Ashcroft v. ACLU, 542 U.S. 656, 675 (2004) (“To be sure, our cases have recognized a compelling interest in protecting minors from exposure to sexually explicit materials”).
111 ESA II, 469 F.3d at 646 (quoting AAMA, 244 F.3d 572, 576 (7th Cir. 2001) (“Children have First Amendment Rights”) (emphasis in original).
112 ESA II, 469 F.3d at 646.
113 Id.
114 Id. at 648-49 (“That is to say, somewhere between Ginsberg and Miller we arrive at the basement for constitutionality of a statute criminalizing the distribution of sexually oriented materials to minors”).
115 Id. at 649.
prong of either Ginsberg or Miller, and also omitted the language requiring the regulated works to be evaluated as a whole.\textsuperscript{116}

And because the SEVGL did not require the State to evaluate each video game as a whole or consider the literary, educational, or artistic value the games may have provided, the statute needlessly encompassed video games that have “social importance for minors.”\textsuperscript{117} The game God of War, is one example of a game that the SEVGL would regulate because it renders images of exposed female breasts.\textsuperscript{118} But taken as whole, the game provides some social importance for minors, and should escape regulation.\textsuperscript{119}

III. THE SUPREME COURT SHOULD REEVALUATE ROTH AND MILLER/GINSBERG

A. The Supreme Court should reevaluate Roth and hold that the First Amendment protects obscenity.

The Court’s refusal to afford First Amendment protection to obscenity is unsupported by precedent, policy, and logic. To understand why, we must first look to Roth v. U.S., in which the Supreme Court firmly established that obscenity is not protected speech.\textsuperscript{120}

The general thrust of Roth is two-fold: 1) obscenity does not contribute meaningfully to society, and is thus not deserving of protection;\textsuperscript{121} and 2) it is implicit that the First Amendment does not protect obscenity.\textsuperscript{122}

\textsuperscript{116}Id.
\textsuperscript{117}Id. at 649-50.
\textsuperscript{118}Id. at 650 (discussing the game God of War, which is similar in content and theme to Homer’s Odyssey).
\textsuperscript{119}Id. at 650.
\textsuperscript{120}354 U.S. 476, 485 (1957).
\textsuperscript{121}See id. at 484.
\textsuperscript{122}See id. at 483.
But the Court never fully establishes why and how obscene speech does not contribute to society. And the idea that “implicit in the history of the First Amendment is the rejection of obscenity” is illogical and ultimately unsupportable.123 Although the Court cited dozens of cases to support this proposition, one need look no further than the first case cited to determine that the support is strained, at best.

The Court first cited to *Ex Parte Jackson*, a case from 1877 concerning a statute regulating use of the mails.124 In *Jackson*, the Court found it was without question that the mails could not be used to send “obscene, lewd, or lascivious” materials.125 But using this passage to support the proposition that obscenity was never meant to be protected by the First Amendment strains reason. Consider that in the very same passage, the Court also held that states could prevent the use of the mail system to send materials regarding birth control, abortion, indecency, and lotteries.126

Because *Jackson* proscribed use of the mails for many purposes now allowed, logic cannot sustain the inference that *Jackson* supports an entire category of speech being exempted from First Amendment protection. While *Jackson* is merely one case of many cited by the Court in *Roth*, it illustrates the utter lack of logic underlying its holding. The Court attempts to rely on precedent to support its holding, but no clear precedent exists.127

Furthermore, while it may have once been assumed that obscenity was not intended for First Amendment protection, this alone should not suffice to support the excising of an entire category of speech from

123 *Id.*
124 *Id.* at 481 (citing *Ex Parte Jackson*, 96 U.S. 727, 736-37 (1877)).
125 96 U.S. at 736.
126 *Id.*
127 *See Roth*, 354 U.S. at 481 (noting that *Roth* presented a question of first impression).
First Amendment protection. Many ideas and policies once accepted have long since been rejected.

In an attempt to address just what it is about obscenity that distinguishes it from other objectionable forms of expression, the Court endorsed the Model Penal Code’s definition of obscenity: “A thing is obscene if . . . it goes substantially beyond customary limits of candor in description or representation of [nudity, sex, or excretion].” But this definition contradicts the Court’s own reasoning with language within the same opinion. The Court took great care in Roth to note that “unorthodox ideas, controversial ideas, even ideas hateful to the prevailing climate of opinion-have the full protection of the [First Amendment].” This explanation of the First Amendment certainly seems to encompass that which “goes substantially beyond customary limits of candor.” Yet, the Court refuses to conform to its own logic. This internal contradiction and inconsistency exemplifies the overarching contradictory nature of obscenity jurisprudence.

The Roth Court also went to great lengths to avoid expressly answering the question of why obscenity is judged on the basis of offensiveness and not its likelihood of inciting lawless action. And it did so by offering a stunningly circular argument: obscenity is judged on the basis of offensiveness rather than any harm it may cause because it is not protected speech, and it is not protected because it is not judged on the harm it may cause. Not only is this argument

128 See id. at 484.
130 Roth, 354 U.S. at 488 n. 20 (quoting MODEL PENAL CODE § 207.10(2) (Tentative Draft No. 6 1957)).
131 Roth, 354 U.S. at 484.
132 Id. at 488.
133 Id. at 486-87.
134 Id. (quoting Beauharnais v. People of State of Ill., 343 U.S. 250, 266 (1952)) (“Certainly no one would contend that obscene speech, for example, may be punished only upon a showing of [harm it causes]”).
circular, but it contradicts the Court’s own reasoning in other First Amendment cases.\textsuperscript{135}

There exists an even greater problem with the \textit{Roth} decision, as noted by Justice Douglas.\textsuperscript{136} The Court’s decision allows states to punish for “thoughts provoked, not for overt acts nor antisocial conduct.”\textsuperscript{137} This position allows states to regulate materials merely for the thoughts they provoke rather than harms they cause, a position otherwise rejected by the Supreme Court.\textsuperscript{138} The standard authorized in \textit{Roth} conflicts with the First Amendment, and “[c]ertainly that standard would not be an acceptable one if religion, economics, polities or philosophy were involved. How does it become a constitutional standard when literature treating with sex is concerned?”\textsuperscript{139}

The Court has not yet answered this question and neither has the Seventh Circuit. In light of this, it makes little sense to apply a different standard to obscenity than to violent expression. The Court should remedy this by answering Justice Douglas’ question or providing First Amendment protection to obscenity.

\textbf{B. States’ compelling interest in preventing harm to minors should apply equally to violent and sexual content.}

The district court and the Seventh Circuit correctly applied Supreme Court precedent in \textit{ESA I} and \textit{ESA II}, respectively. The law is clear regarding sexually explicit materials: shielding minors from

\begin{itemize}
\item \textsuperscript{135} See, e.g., FCC v. Pacifica Found., 438 U.S. 726, 745 (1978) (stating “the fact that society may find speech offensive is not a sufficient reason for suppressing it”).
\item \textsuperscript{136} \textit{Roth}, 354 U.S. at 508-14 (1957) (Douglas, J. dissenting) (“It is no answer to say, as the Court does, that obscenity is not protected speech”).
\item \textsuperscript{137} \textit{Id.} at 509.
\item \textsuperscript{138} Ashcroft v. Free Speech Coal., 535 U.S. 234, 253 (2002) (“[T]he Court’s First Amendment cases draw vital distinctions between words and deeds, between ideas and conduct”).
\item \textsuperscript{139} \textit{Roth}, 354 U.S. at 512 (Douglas, J. dissenting).
\end{itemize}
sexually explicit content is a compelling interest. The law is equally clear regarding violent content: states may not regulate violent expression absent a showing that the speech is directed at causing imminent violence and is likely to do so.

Less clear is the reason why it is compelling to protect children from sexually explicit materials, but not violent materials. This is especially true given the overarching compelling interest of “protecting the physical and psychological well-being of minors.” Judge Posner attempted to explain this distinction in AAMA in 2000, but his explanation falls short.

As Judge Posner explained, the concerns animating obscenity laws and violent expressions are very different. Obscenity is not denied constitutional protection because of the harm it causes, but rather simply because it is offensive. Unlike with nearly all other categories of expression, states need not demonstrate that obscenity is likely to incite lawlessness or cause harm in order to regulate it. With obscenity, “[o]ffensiveness is the offense.”

But as Judge Posner pointed out, a statute regulating violent expression based on offensiveness could not withstand judicial scrutiny. Protecting citizens from violence is a compelling interest, but unlike obscenity law, protecting them from violent images is not.

Judge Posner dispensed with this seemingly arbitrary distinction between sex and violence by asserting that protecting people from violent images is a novel idea, while protecting people from sexually explicit content is not.

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142 Sable Commc’n of Cal., Inc. v. FCC, 492 U.S. 115, 126 (1989).
143 See generally 244 F.3d 572 (7th Cir. 2000).
144 Id. at 574.
145 Id.
146 Id. at 575.
147 Id.
148 Id.
149 Id. (citing Chaplinsky v. New Hampshire, 315 U.S. 568, 572-73 (1942)).
explicit images is the traditional concern of obscenity laws. This is true, but it does not explain why this distinction exists; it merely explains that it does exist.

The central holding of *Ginsberg* is that potential psychological harm to minors is a sufficient basis for shielding children from sexual expression. The Court remarked that this finding was not “an accepted scientific fact.” But the Court held that it did not require scientific proof; it was enough for the Court that it merely not be irrational to conclude that sexual materials may harm children.

Judge Posner referenced this basis in *AAMA* when he suggested that an ordinance regulating violent video games premised on harm to children must meet the same standard from *Ginsberg*. If this were true, then a mere showing of potential harm from exposing juveniles to violent images would suffice to regulate violent content. But he then contradicted himself and completely misstated *Ginsberg* by stating that “[t]he grounds must be compelling not merely plausible.”

This internal inconsistency from *AAMA* is representative of the logic, or lack thereof, regarding whether harm to minors is a compelling interest.

In *Ginsberg*, the Court found no causal link between sexually explicit materials and harm to children, but did not require such a link to find the statute constitutional. The Court even stated, “[w]e do not demand of legislatures scientifically certain criteria of legislation.” But both the Supreme Court and the Seventh Circuit demand this scientific rigor when it comes to statutes regulating

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150 *AAMA*, 244 F.3d. at 575-76.
151 *Id.* at 576.
153 *Id.*
154 *AAMA*, 244 F.3d at 576.
155 *Id.*
156 *Ginsberg*, 390 U.S. at 642.
157 *Id.* at 642-43 (internal quotation marks omitted).
violent images.\textsuperscript{158} In fact, this lack of a scientific causal connection between violent video games and increased aggression in minors who play such games was central to the district court striking down the VVGL in \textit{ESA I}.\textsuperscript{159}

As a matter of legal consistency, the courts should apply the same level of scrutiny to all expression aimed at minors. If it is so clearly a compelling interest to protect the psychological and physical welfare of minors,\textsuperscript{160} then the specific category of expression should not matter. If the potential harm to children stemming from exposure to sexually explicit images is enough to regulate sexual expression aimed at juveniles, then the potential harm to children stemming from exposure to violent images should also be enough to regulate violent expression aimed at juveniles.

The Seventh Circuit’s response to this idea has been that concern over sexual images has long been a concern of the people, but not so for violent images.\textsuperscript{161} But as Justice Harlan highlighted, the fact that obscenity is not protected speech does not answer the question why it is not protected.\textsuperscript{162}

Additionally, much of the logic Judge Posner uses to justify exposing minors to violent images works applies equally well to sexual images.\textsuperscript{163} Judge Posner argued quite sensibly that violence is often a matter of politics, and young voters should be allowed access to uncensored speech prior to becoming voting age “so that their minds are not a blank when they first exercise the franchise.”\textsuperscript{164} “People are unlikely to become well-functioning, independent-minded adults and responsible citizens if they are raised in an intellectual

\footnotesize{\textsuperscript{158}See \textit{Brandenburg v. Ohio}, 395 U.S. 444, 447 (1969); \textit{AAMA}, 244 F.3d at 579.}
\footnotesize{\textsuperscript{159} \textit{ESA I}, 404 F. Supp. 2d, 1051, 1073-74 (N.D. Ill. 2005).}
\footnotesize{\textsuperscript{160} \textit{Sable Commc’n of Cal., Inc. v. FCC}, 492 U.S. 115, 126 (1989).}
\footnotesize{\textsuperscript{161} \textit{AAMA}, 244 F.3d 572, 575-76 (7th Cir. 2001).}
\footnotesize{\textsuperscript{162} \textit{Roth v. United States}, 354 U.S. 476, 507 (Harlan, J. dissenting).}
\footnotesize{\textsuperscript{163} \textit{AAMA}, 244 F.3d at 577-78.}
\footnotesize{\textsuperscript{164} \textit{Id.} at 577.
bubble.” This argument works just as well if the topic becomes sexually explicit materials, rather than violent materials.

Judge Posner continued to argue against regulating violent images aimed at children because violence is a significant human interest. This is no doubt true, but it is no less true of sex, and the Supreme Court admitted as much even when holding that the First Amendment does not protect obscenity. If humankind’s interest in violence is equaled by its interest in sex, and violent expression is afforded protection on the basis of human interest, then obscenity should also be afforded that protection.

Finally, Judge Posner argued that “shield[ing] children right up to the age of 18 from exposure to violent descriptions and images would not only be quixotic, but deforming; it would leave them unequipped to cope with the world as we know it.” Again, because sex is a recurrent interest of humankind, this statement can apply with equal force to sexual expression. Young adults face great exposure to sexual content, and to shield minors from access to this material is no less quixotic.

Ultimately, the district court and the Seventh Circuit correctly struck down both the VVGL and SEVGL, but the SEVGL was given a free pass on the compelling interest prong of strict scrutiny whereas the VVGL was found not to encompass a compelling interest. This disparity is troubling from a policy and parental perspective, but also inconsistent legally.

The logical conclusion is not necessarily that sexual expression should be afforded the same high level of scrutiny as violent expression in the context of minors, but rather that the interest in protecting minors from violent expression should equal that of sexual expression.

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165 Id.
166 Id.
167 Roth, 354 U.S. at 487 (“Sex, a great and mysterious motive force in human life, has indisputably been a subject of absorbing interest to mankind through the ages; it is one of the vital problems of human interest and public concern”).
168 AAMA, 244 F.3d at 577.
CONCLUSION

Nearly all forms of expression demand full First Amendment protection, yet obscenity continues to fall outside the cover of this protective shield.

Currently, states may regulate obscenity merely for thoughts provoked and not for harms it may cause. But as the Court has noted, “First Amendment freedoms are most in danger when the government seeks to control thought or to justify its laws for that impermissible end. The right to think is the beginning of freedom, and speech must be protected from the government because speech is the beginning of thought.”\textsuperscript{169}

In order to uphold the virtues and purpose of the First Amendment, the Court should change course and afford obscenity the full protection of the First Amendment, just as it does other categories of objectionable and offensive speech.

This is not the only change the Court should make in First Amendment law. The Court justifiably holds that protecting children from sexually indecent materials is a compelling interest strong enough to withstand strict scrutiny because of potential psychological harm such materials may cause children.\textsuperscript{170} And it allows regulations on this basis absent a causal link between the sexually explicit materials and such harm.

But courts are not able to apply this same standard to violent materials aimed at minors. Instead, when it comes to violent materials, legislatures must demonstrate a causal link between the violent content and imminent violent conduct.\textsuperscript{171}

This disparity between sexual and violent content makes little sense in light of the compelling interest of protecting the psychological welfare of minors.\textsuperscript{172} So if sexual materials directed to minors may be

\textsuperscript{170} See Ashcroft v. ACLU, 542 U.S. 656, 675 (2004).
\textsuperscript{171} ESA I, 404 F. Supp. 2d 1051, 1073 (N.D. Ill. 2005).
\textsuperscript{172} Sable Comm’ns of Cal., Inc. v. FCC, 492 U.S. 115, 126 (1989).
regulated so as to prevent mere potential harm, then so too should violent materials.
MAYER V. MONROE: THE SEVENTH CIRCUIT SHEDS FREEDOM OF SPEECH AT THE CLASSROOM DOOR

JUSTIN NEMUNAITIS*


INTRODUCTION

The Supreme Court has had a difficult time resolving First Amendment disputes in the public school setting. The Court has frequently reiterated that teachers and students do not “shed their Constitutional rights to freedom of speech or expression at the schoolhouse gate.”1 Nonetheless, schools must be able to maintain some control over their classrooms because “[i]n no activity of the State is it more vital to keep out divisive forces than in its schools.”2 Not surprisingly, lower courts have had trouble navigating these conflicting interests, and as a result, this area of the law can be quite difficult to predict.3

* J.D. candidate, May 2008, Chicago-Kent College of Law, Illinois Institute of Technology; B.S. Mathematics, May 2005, University of Texas-Austin. I would like to acknowledge Professor Hal Morris, Julia Lissner, Matthew McQuiston and Tracy Mendonides for their invaluable help in writing this Note.

3 See Karen C. Daly, Balancing Act: Teachers’ Classroom Speech and the First Amendment, 30 J.L. & EDUC. 1, 4-6 (2001).
In *Mayer v. Monroe County Community School Corp.*, the Seventh Circuit recently scaled back the protection afforded to the classroom speech of public school teachers. A school dismissed a teacher, after she mentioned to her students that she honked her horn while driving past individuals protesting the war in Iraq. The court ruled that teachers’ opinions are not protected by the First Amendment when expressed in the classroom. This decision implicitly overruled previous precedent by applying a stricter test to teacher classroom speech.

Federal courts are currently split over what test to apply when evaluating a teacher’s classroom speech. The First, Second, Eighth, and Tenth Circuits treat this speech as classroom speech governed by *Hazelwood School District v. Kuhlmeier*. The Third, Fourth, Fifth, Sixth, D.C., and now Seventh Circuits treat this speech as public employee speech governed by *Pickering v. Board of Education of Township High School District 205*. The Supreme Court has not yet

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5 *Mayer II*, 474 F.3d at 478.
6 *Id.* at 480.
7 See, e.g., Webster v. New Lenox Sch. Dist. No. 122, 917 F.2d 1004, 1008 (7th Cir. 1990).
resolved this split—although it could have addressed the issue in its recent decision *Garcetti v. Ceballos*.\(^{12}\)

Despite the controversy surrounding this issue, the Seventh Circuit has not explained why it prefers one test over the other. This Note will attempt to fill that gap. Part I will explain how a circuit split has developed around these three Supreme Court decisions. Part II will explain what the Seventh Circuit has contributed to this debate with *Mayer*. Part III will examine practical problems created by *Mayer*. Part IV will analyze the various tests that the Seventh Circuit could have applied in *Mayer*. Finally, Part V will argue that the court should have maintained its earlier practice of evaluating teacher classroom speech under *Hazelwood*.

I. LEGAL BACKGROUND

A. Supreme Court Precedents

When analyzing teacher classroom speech, courts must choose between two different lines of Supreme Court precedent. The first focuses on public employee speech, and the second focuses on school speech.

1. The *Pickering* Line of Cases

In *Pickering*, a public high school teacher wrote a letter to the local newspaper opposing a bond proposal to raise school funds.\(^{13}\) The letter accused the school board of diverting too much money to athletics and threatening teachers who opposed the bond proposal.\(^{14}\) After the school board fired the teacher, he filed a § 1983 action against the school board claiming that his First Amendment right to expression had been infringed.\(^{15}\) The Supreme Court explained that

\(^{13}\) 391 U.S. 563, 566 (1968).
\(^{14}\) *Id*.
\(^{15}\) *Id.* at 564-65.
government employees do not lose their Constitutional rights simply by accepting government paychecks.\textsuperscript{16} Nonetheless, the government needs some control over the speech of its employees to promote the efficiency of public services.\textsuperscript{17}

The Supreme Court developed a two part test two resolve this tension: (1) a court must determine whether a public employee’s speech touches upon “matters of public concern;” (2) if so, the court must balance the free speech interests of the employee against the government’s interest as an employer.\textsuperscript{18} If the speech does not touch on a matter of public concern it is unprotected, and the employee’s claim will fail.\textsuperscript{19}

The bond issue in \textit{Pickering} was the subject of considerable public debate at the time, so the Court moved on to the second part of the test, balancing the interests of the teacher and the school board. The teacher had an interest in contributing his opinion to the public debate, and the public had an interest in receiving as much information as possible regarding this important decision.\textsuperscript{20} The school board, on the other hand, suffered no detriment because of the letter. It was written after the proposal had been defeated at the polls and, as far as the Court could tell, the public greeted it with “massive apathy and total disbelief.”\textsuperscript{21} Since the school board brought forth no evidence that the letter created any disruption, or hindered the school’s attempt to raise funds, the teacher’s speech was protected.\textsuperscript{22} Accordingly, he had been wrongfully discharged.\textsuperscript{23}

Subsequent decisions have clarified this complicated test. For example, the government may still retaliate against the protected

\textsuperscript{16} See \textit{id.} at 568.
\textsuperscript{17} \textit{Id.}
\textsuperscript{18} See \textit{id.} at 572-73. This second step is commonly referred to as the “\textit{Pickering} balancing test.”
\textsuperscript{19} \textit{Id.}
\textsuperscript{20} \textit{Id.} at 571-72.
\textsuperscript{21} \textit{Id.} at 570.
\textsuperscript{22} \textit{Id.} at 572-73.
\textsuperscript{23} \textit{Id.} at 574-75.
speech of a public employee if it has an independent basis for discharge. In addition, the speech need not be broadcast to the public; speech directed only toward supervisors may also be protected.

The Supreme Court’s next major decision in this area, Connick v. Myers, narrowed the definition of “public concern.” An assistant district attorney was upset about being transferred to a different division. She circulated a questionnaire soliciting the views of her colleagues concerning office transfer policy, office morale, the level of confidence in supervisors, and whether they felt pressured to work in political campaigns. The trial court had held that this questionnaire addressed matters of public concern, but the Supreme Court reversed. After considering the “content, form, and context” of the employee’s speech, the Supreme Court concluded that the questionnaire was an outgrowth of a personal dispute. Although it addressed matters of public concern, the purpose of the questionnaire was simply to frustrate her supervisors. The Court refused to “constitutionalize” this employee grievance to discourage public employees from litigating minor personal disputes. Because Myers could not pass the first step of the Pickering test, the Court did not address the second step.

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24 See Mt. Healthy Sch. Dist. Bd. of Educ. v. Doyle, 429 U.S. 274, 287 (1976) (explaining that the school board could not fire a teacher for distributing a memo to a local radio station, but it could fire him for obscene conduct directed toward faculty, staff, and students).
25 Givhan v. W. Line Consol. Sch. Dist., 439 U.S. 410, 415-16 (1979) (explaining that private speech between teacher and principal may be protected after the teacher criticized the school’s implementation of a desegregation order).
27 See Daly, supra note 3, at 9.
28 Connick, 461 U.S. at 141-42.
29 Id. at 152.
30 Id. at 148.
31 Id.
32 Id. at 154.
33 See id.
Most recently, in *Garcetti*, the Supreme Court further narrowed the first step of the *Pickering* test. A deputy district attorney examined an affidavit used to procure a search warrant. He wrote a memo to his supervisor detailing serious misrepresentations made in the affidavit, but his supervisor refused to dismiss the case. After a heated discussion of this decision, the deputy was transferred to a different division; in response, the deputy sued. The Court ruled that although the memo touched upon matters of public concern, it was not protected because it was written pursuant to the employee’s duty as a calendar deputy. When a government employee is speaking within the scope of his employment duties, he is not speaking as a citizen, and hence has no First Amendment protection.

In light of *Connick* and *Garcetti*, a government employee must now satisfy a new test to prevail on a First Amendment claim. The employee must show that (1) the speech, considered in context, touches upon “matters of public concern,” and is outside the scope of employment; (2) if so, the free speech interests of the employee must outweigh government’s interest as an employer. Although the language of *Garcetti* is broad enough to apply to all public employees, the Court explicitly declined to decide if this same test applies to cases involving “speech related to scholarship or teaching.”

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36 *Id.* at 1955.
37 *Id.* at 1956.
38 *Id.* at 1960.
39 *Id.*
42 *Id.*
43 *Id.* at 1962.
2. The *Hazelwood* Line of Cases

The Supreme Court has consistently applied specialized analysis for speech occurring in school settings.\(^44\) The seminal case on school speech is *Tinker v. Des Moines Independent Community School District*, in which the Court protected students’ right to wear black armbands protesting the Vietnam War.\(^45\) Justice Fortas famously proclaimed “it can hardly be argued that either students or teachers shed their constitutional rights to freedom of speech or expression at the schoolhouse gate.”\(^46\) School authorities may censor classroom speech, but only after showing that the speech would “‘materially and substantially interfere with the requirements of appropriate discipline in the operation of the school.’”\(^47\)

*Tinker* was a first attempt at balancing free speech rights against the practical need to maintain discipline in an educational institution. The Court’s strong rhetoric against authoritarian limits on teacher and student expression encouraged lower courts to protect First Amendment rights in schools.\(^48\)

Subsequent decisions have tipped the scales further in favor of school authorities.\(^49\) For example, the Court elaborated in *Bethel v. Fraser* that a school may prevent a student from giving an obscene speech, and emphasized a school’s need to disassociate itself from inappropriate speech.\(^50\)


\(^{45}\) 393 U.S. 503 (1969).

\(^{46}\) Id. at 506.

\(^{47}\) Id. at 509 (quoting Burnside v. Byars, 363 F.2d 744, 749 (5th Cir. 1966)).

\(^{48}\) See id. (“[i]n our system, state-operated schools may not be enclaves of totalitarianism”).

\(^{49}\) See Daly, supra note 3, at 9.

\(^{50}\) 478 U.S. 675, 686 (1986).
The Supreme Court’s most recent decision in this line, *Hazelwood*, significantly narrowed the holding in *Tinker*. In *Hazelwood*, a high school principal removed several controversial articles from the student-written school newspaper. One article was removed because it discussed students’ experiences with pregnancy, and the principal worried that the article did not sufficiently conceal the students’ identities. The other article criticized a student’s father during divorce proceedings without giving the father a chance to explain his behavior.

Rather than simply applying the *Tinker* test, the Court used “forum analysis” to determine what test to apply. The Court first considered whether the school had opened up the newspaper as a public forum; if so, it would apply the *Tinker* test. It concluded that because the school reserved editorial control over the newspaper, it was a non-public forum for “school-sponsored” expression. It determined that a new test was necessary for this speech which “the public might reasonably perceive to bear the imprimatur of the school.”

The new test allowed the school to censor school-sponsored speech so long as its actions are “reasonably related to legitimate pedagogical concerns.” The Court found that the school board had a legitimate interest in teaching appropriate journalism practice, i.e. protecting confidentiality of sources and allowing for even-handed debate. Because the articles deviated from that practice, the principal did not violate the First Amendment by removing them from the

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51 See Daly, supra note 3, at 11.
53 Id.
54 Id. at 267. The Court had recently elaborated on this concept of differentiating between First Amendment claims based on the forum of the speech. See *Perry Educ. Assn. v. Perry Local Educators’ Assn.*, 460 U.S. 37, 47 (1983); *Cornelius v. NAACP Legal Def. & Educ. Fund, Inc.*, 473 U.S. 788, 802 (1985).
55 *Hazelwood*, 484 U.S. at 270-73.
56 Id. at 270.
57 Id. at 271.
58 Id. at 273.
school newspaper. The Court further explained that school authorities have a legitimate pedagogical interest in protecting students from speech that advocates drug use, irresponsible sex or conduct “inconsistent with ‘the shared values of a civilized social order.’”

Although *Hazelwood* dealt with student speech, the test the Court articulated is broad enough to include teacher speech which is school-sponsored. Accordingly, lower courts have disagreed over whether teacher classroom speech should be analyzed as government employee speech under *Pickering*, or school sponsored speech under *Hazelwood*.

**B. Circuit Court Responses**

Although few courts have had the chance to address *Garcetti*, the *Hazelwood/Pickering* distinction has provided ample ground for disagreement between the circuits. Both lines of cases provide different tests for evaluating teacher classroom speech. *Pickering* protects teacher classroom speech that addresses matters of public concern. *Hazelwood* protects teacher classroom speech when the school board has no legitimate pedagogical reason for preventing the speech. These two very different tests do not always return the same results. While most circuits have decided to apply one test or the other, few have explained why.

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59 *Id.* at 272.
60 *Id.* at 272 (quoting Bethel v. Fraser, 478 U.S. 675, 683 (1986)).
62 See Daly, *supra* note 3, at 16.
63 See Daly, *supra* note 3, at 16-17.
66 See Daly, *supra* note 3, at 16-17. For example, suppose a math teacher asks students to identify practical uses for algebra in their everyday lives. Certainly there is a pedagogical reason for this assignment, but it does not touch upon matters of public concern. Alternatively, suppose that math teacher decides to discuss the war in Iraq instead of math. While this topic is a matter of public concern, the math
1. Circuit Courts that Apply Pickering

At least two courts applying Pickering have determined categorically that classroom speech is never protected. In Boring v. Buncombe, a drama teacher directed a school play which the school principal felt violated the controversial materials policy. Although he initially approved the play, the principal later decided that the play was inappropriate. At the end of the year he requested that the teacher be transferred because of “personal conflicts.” The Fourth Circuit reasoned that disputes over classroom speech are inherently private employment disputes. Thus, classroom speech never touches upon matters of public concern. This ruling effectively created a per se rule that teacher classroom speech is unprotected. While this decision creates a clear rule, it did not properly analyze whether the teacher’s speech touched upon matters of public concern.

The Sixth Circuit applied the Pickering test more faithfully in Cockrel v. Shelby. An elementary school teacher invited Woody Harrelson to discuss legalization of industrialized hemp in her teacher would have no legitimate pedagogical reason for refusing to teach math in math class.


68 See Boring v. Buncombe Bd. of Educ., 136 F.3d 364, 369 (4th Cir. 1998); Kirkland, 890 F.2d at 798.

69 136 F.3d at 366.

70 Id.

71 See id. at 369.

72 See id.

73 See id. at 378-79 (Motz, J. dissenting).

74 270 F.3d 1036, 1052 (6th Cir. 2001).
The principal initially approved this decision, but after several visits by the famous actor, national media attention, and numerous parents’ complaints, the principal fired the teacher. The court applied *Pickering* and first determined that because the controversial topic of industrialized hemp generated substantial public debate, it is a matter of public concern. The court recognized that a teacher may still speak about matters of public concern within the classroom, and criticized *Boring* for focusing on the location of the speech rather than the content of the speech.

The court next applied the second step of the *Pickering* test—balancing the interests of the employee and the school. The court ruled that the balancing test weighed heavily in favor of the teacher. The teacher’s speech addressed a matter of significant public concern and the speech did nothing to hurt the efficiency of the workplace, or create disharmony among employees. Although several parents complained, these complaints had minimal impact on workplace efficiency. At least one Judge was particularly influenced by the fact that the school had initially authorized the visits. Thus, under *Pickering*, the teacher’s speech was protected.

The Fourth Circuit will likely read *Garcetti* as validating its earlier decision because classroom speech is part of a teacher’s official duties. The Sixth Circuit may join the Fourth Circuit by adopting a per se rule that teacher classroom speech is unprotected, or it may focus on *Garcetti*’s statement that the school setting is unique.

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75 *Id.* at 1042-43.
76 *Id.* at 1042-45.
77 *Id.*
78 *Id.* at 1054.
79 *Id.*
80 *Id.* at 1060 (Siler, J. concurring).
81 *See id.* at 1962.
2. Circuit Courts that Apply *Hazelwood*

Courts applying *Hazelwood* have done so uniformly, i.e. there is no comparable split like the one between the Fourth and Sixth Circuits. Under *Hazelwood*, a school may restrict teacher classroom speech to advance “legitimate pedagogical concerns.”82 Preservation of the school board’s accepted curriculum is one such concern, so a teacher has no First Amendment right to deviate from the curriculum.83 Teacher speech may be protected when it does not contradict the school’s curriculum.84 Thus, Courts applying *Hazelwood* have generally concluded that school boards have wide latitude to set curricula, but must give teachers adequate notice of speech restrictions.85

In *Ward v. Hickey* a ninth grade biology teacher started a discussion over whether Down’s syndrome fetuses should be aborted.86 After a parent notified the school board of the discussion, the board voted to deny the teacher tenure, and he sued. The First Circuit ruled that the school board had a legitimate pedagogical interest in prohibiting such a controversial discussion.87 Nonetheless, the school board could only punish the teacher after notifying him that such a discussion is prohibited.88 In contrast, courts applying *Pickering* are not usually concerned with notice to the teachers.89


83 See Ward, 996 F.2d at 452.

84 See Lacks, 147 F.3d at 723; Ward, 996 F.2d at 454; Webster, 917 F.2d at 1007.

85 See Lacks, 147 F.3d at 723; Ward, 996 F.2d at 452.

86 996 F.2d at 450.

87 Id. at 453.

88 Id. at 452.

C. The Seventh Circuit Response

The Seventh Circuit initially followed those courts applying *Hazelwood* to teacher classroom speech. In *Webster v. New Lenox School District No. 122*, a teacher refused to teach evolution and chose to teach creation science instead.\(^90\) Despite complaints from school authorities, the teacher simply refused to follow the curriculum.\(^91\) The Seventh Circuit analyzed his claim under *Hazelwood*. Like the other courts applying *Hazelwood*, it ruled that a school board has a legitimate pedagogical interest in ensuring that teachers do not create their own curricula.\(^92\) Accordingly, the teacher had no First Amendment right to discuss creation science in the classroom.\(^93\) While school authorities may not fire teachers for “random classroom comments,” they may fire a teacher who refuses to teach the set curriculum.\(^94\)

The Seventh Circuit applied *Pickering* in employment dispute cases involving non-classroom teacher speech. The court applied this analysis when a university professor sexually harassed female students at a conference off campus,\(^95\) and when a high school teacher wrote articles for a local newspaper criticizing the school board.\(^96\) In both those cases the teachers had claimed First Amendment protection for their speech.\(^97\)

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\(^90\) 917 F.2d 1004, 1008 (7th Cir. 1990).
\(^91\) *Id.* at 1006.
\(^92\) *Id.* at 1008.
\(^93\) *Id.*
\(^94\) *Id.* at 1007-08.
\(^95\) See *Trejo v. Shoben*, 319 F. 3d 878, 881-84 (7th Cir. 2003).
\(^96\) See *Dishnow v. Sch. Dist. of Rib Lake*, 77 F.3d 194 (7th Cir. 1996).
\(^97\) *Trejo*, 319 F. 3d at 884; *Dishnow*, 77 F.3d at 197.
The Seventh Circuit recently had an opportunity to re-visit teacher classroom speech in *Piggee v. Sandburg*. Piggee, a cosmetology teacher at a community college, placed anti-homosexual pamphlets in the pocket of one student at the end of class. The student, who was homosexual, was deeply offended by the pamphlets. At the end of the year, the teacher’s contract was not renewed. Ignoring *Webster*, the court discussed the first step of the *Pickering* test—whether or not the speech touched upon a matter of public concern, and was outside the scope of her employment. The court determined that the discussion of homosexual behavior “richly deserves public attention.” Furthermore, the speech was outside the scope of Piggee’s employment because she was hired to teach cosmetology not proselytize against homosexuality. Nonetheless, the court refused to move onto the second step of the *Pickering* test. Instead, it decided that the *Pickering* test was simply inappropriate for teacher classroom speech. The court described a new test: a school can prohibit “nongermane” speech that “could impede the school’s educational mission.”

This decision is difficult to interpret in light of the circuit split surrounding this issue. The Seventh Circuit seems to have rejected its earlier decisions and aligned itself with the circuits that apply *Pickering* to cases involving teacher classroom speech. However, *Piggee* does not follow *Boring v. Buncombe* because it refused to

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98 See 464 F.3d 667 (7th Cir. 2006).
99 *Id.* at 669 (Specifically, he “did not appreciate being called an abomination, a child molester, or a rapist and a deviant”).
100 *Id.* at 669.
101 *Id.* at 670-71.
102 *Id.* at 671-72.
103 *Id.*
104 *Id.* at 672 (“The real question, however, is whether the college had a right to insist that Piggee refrain from engaging in that particular speech while serving as an instructor of cosmetology”).
105 *Id.* at 672. The court offered little explanation of where this test comes from, and it does not cite to any previous opinion. See *id.*
create a per se rule that teacher classroom speech is unprotected.\textsuperscript{106} It does not follow \textit{Cockrel v. Shelby} because it refused to move onto the second step of the \textit{Pickering} test.\textsuperscript{107} Although much of the discussion in \textit{Piggee} concerns \textit{Pickering}, the holding of the case is consistent with the Seventh Circuit’s earlier precedent applying \textit{Hazelwood}, i.e. the court required the school to justify its employment decision by showing some sort of educational concern.\textsuperscript{108}

II. \textsc{Mayer v. Monroe County Community School Corp.}

If \textit{Piggee} left doubts about which line of Supreme Court precedent to apply in cases involving teacher classroom speech, \textit{Mayer} \textit{v. Monroe} answered them. This decision firmly aligns the Seventh Circuit with those courts that have created a per se rule that teacher classroom speech is unprotected.\textsuperscript{109} The case is very short, and the compelling story leading up to the litigation is condensed into a paragraph. Luckily, the district court preserved much of the factual background.\textsuperscript{110}

\textit{A. The District Court Opinion}

In August of 2002, Mayer signed a one-year contract with the Monroe School Board to teach a current events class for fourth-sixth graders.\textsuperscript{111} She relied on approved material such as the current events

\begin{footnotesize}
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  \item \textsuperscript{106} \textit{Piggee}, 464 F.3d at 671 (“[c]lassroom or instructional speech, in short, is inevitably speech that is part of the instructor’s official duties, even though at the same time the instructor’s freedom to express her views on the assigned course is protected”).
  \item \textsuperscript{107} \textit{id.} at 672.
  \item \textsuperscript{108} \textit{Compare id.}, with \textit{Webster v. New Lenox Sch. Dist. No. 122, 917 F.2d 1004, 1008 (7th Cir. 1990)}.
  \item \textsuperscript{109} \textit{Mayer v. Monroe County Cmty. Sch. Corp (Mayer II)}, 474 F.3d 477, 478 (7th Cir. 2007).
  \item \textsuperscript{111} \textit{id.} at *5 n.1.
\end{itemize}
\end{footnotesize}
magazine, “Time for Kids” (“TFK”), to teach the class. On January 10, 2003, TFK contained information on the war in Iraq and related protests. After discussing the article, one student asked Ms. Mayer if she would ever march in a protest. She responded that peace protests are going on all over the country including Bloomington, and “[w]hen I drive past the courthouse square and the demonstrators are picketing I honk my horn for peace because their sign says ‘Honk for Peace.’” She further explained that it is important for everyone to seek out peaceful solutions even on the playground. The class then moved on to discuss other material.

Soon afterward, one parent complained and the school principal held a meeting with the parent and Ms. Mayer. All three agreed that Ms. Mayer should “not mention peace in her class again.” The next day, the principal circulated a memo to the school teachers informing everyone that the school had no official stance on the war in Iraq. He also cancelled “Peace Month,” an annual tradition supporting peaceful resolution of problems. After the school district refused to renew her contract, Mayer sued. The district court engaged in Pickering analysis and granted summary judgment for the school board after it determined that Mayer was speaking as a public employee rather than a citizen.

112 Id. at *5.
113 Id. at *6.
114 Id. at *6.
115 Id. at *7.
116 Id. at *9.
117 Id. at *26. Although both Mayer I and Mayer II focused on the First Amendment issue, the district court detailed numerous other complaints against Ms. Mayer which, if true, could have independently justified her termination. Id. at *9.
118 Id. at *39.
B. The Seventh Circuit Opinion

Less than a month after the district court issued its opinion, the Supreme Court decided *Garcetti*, which denies First Amendment protection to public employees acting pursuant to official duties.\(^{119}\) The Seventh Circuit reasoned that if *Garcetti* applies then “the school district prevails without further ado.”\(^{120}\) Thus, the Seventh Circuit’s opinion focuses on whether Mayer’s speech occurred pursuant to an official duty.\(^{121}\)

The court first looked at its earlier teacher classroom speech case, *Webster*.\(^{122}\) It mentions this case simply for the proposition that teachers must follow the rules set by school authorities.\(^{123}\) A teacher must stick to the prescribed curriculum, so a literature teacher cannot choose what books to teach and a math teacher cannot decide to teach calculus in place of trigonometry.\(^{124}\) Part of the rationale for this rule is that teachers can be powerful influences in students’ lives; the power to decide what students hear must rest in the hands of elected officials.\(^{125}\) The court concluded that Mayer presented “personal views to captive audiences against the instructions of elected officials.”\(^{126}\)

This comment is unusual because no elected official instructed Mayer that her comments were outside the curriculum until after she made them.\(^{127}\) In fact, since she was commenting on approved material, her comments were likely within the prescribed curriculum.


\(^{120}\) *Mayer* v. Monroe County Cmty. Sch. Corp (*Mayer II*), 474 F.3d 477, 479 (7th Cir. 2007).

\(^{121}\) *Id*.

\(^{122}\) *Id*.

\(^{123}\) *Id.* at 479 (“This is so in part because the school system does not “regulate” teachers’ speech as much as it *hires* that speech”).

\(^{124}\) *Id*.

\(^{125}\) *Id.* at 480.

\(^{126}\) *Id*.

While this point is arguable, the court simply assumes that Mayer disobeyed school authorities.\textsuperscript{128} The court next distinguished \textit{Piggee} by stating that proselytizing was not part of Piggee’s teaching duties, but Mayer’s current events class was an assigned task.\textsuperscript{129} Thus, the court need not apply \textit{Piggee}’s “germaneness” test because \textit{Garcetti} applies directly—Mayer had no first amendment right to express an opinion on current events in current events class. The court concluded by holding, “the first amendment does not entitle primary and secondary teachers, when conducting the education of captive audiences, to cover topics, or advocate viewpoints, that depart from the curriculum adopted by the school.”\textsuperscript{130} Although the court qualified its holding by stating that teacher speech is only proscribed when it departs from the curriculum, this qualification is meaningless because the court never explained why Mayer’s comments departed from the curriculum. She covered a topic adopted in the school curriculum—the Iraq war—and advocated a position which the school had annually celebrated until the day after her comments—peaceful resolution of conflicts. Even if Mayer’s statements did depart from the curriculum, they did so only after the school informed Mayer that her statements were inappropriate.\textsuperscript{131} Thus, the Seventh Circuit allows school boards to change the curriculum \textit{post hoc}, and then fire a teacher for making comments that were acceptable at the time they were made.

\textbf{III. PROBLEMS WITH MAYER V. MONROE COUNTY COMMUNITY SCHOOL CORP.}

The Seventh Circuit has created a per se rule that teachers have no right to express opinions in the classroom, even if the school board

\begin{itemize}
  \item \textsuperscript{128} \textit{Mayer II}, 474 F.3d at 480.
  \item \textsuperscript{129} \textit{Id}.
  \item \textsuperscript{130} \textit{Id}.
  \item \textsuperscript{131} \textit{See Mayer I}, 2006 U.S. Dist. LEXIS 26137, at *1, *37-*38 (stating that it is irrelevant when the school board prohibited Mayer’s speech because she never had a First Amendment right to express any opinion in the classroom).
\end{itemize}
initially approves the opinions. This rule creates numerous practical problems. The court intended that this bright-line rule minimize costly litigation over employment disputes, and clarify that school boards, not teachers, control the curriculum. Unfortunately, the rule favors school boards too much: it encourages school boards to bend to the whims of vocal parents and use teachers as scapegoats; it discourages teachers from developing creative lesson plans; and it threatens teachers’ rights outside the classroom.

As Mayer illustrates, school boards are bombarded by constant pressure from parents. While the school board has a responsibility to respect the wishes of the community, it must do so in a way consistent with the Constitution. For example, a school board cannot decide to teach creationism instead of evolution simply because a vocal group of parents complain. Similarly, a school board should not dismiss good teachers simply because a handful of parents have idiosyncratic objections. Other circuits protect teachers from this sort of whimsical removal by requiring school boards to offer some sort of

132 See, e.g., Daly, supra note 3, at 28-31 (discussing problems created by the per se rules of Boring v. Buncombe and similar cases).
133 See Mayer II, 474 F.3d at 478-79.
134 Mayer I, 2006 U.S. Dist. LEXIS 26137, at *4-*27; Liz Babiarz, School Board to study turnover; Board wants to learn why superintendents do not stay, SARASOTA HERALD-TRIBUNE, Oct. 31, 2006 at BS1 (noting that community pressure is one of the primary reasons superintendents have been leaving the local school board).
justification for their employment decisions.\footnote{137} In these circuits, school boards must explain to even the most irate parents that they cannot arbitrarily remove teachers.\footnote{138} Under \textit{Mayer}, teachers no longer have this protection because a school board can justify any employment decision by pointing to a teacher’s classroom speech, even if the speech was pre-approved.\footnote{139} District courts in these circuits are left with no choice but to dismiss the teachers’ claims.\footnote{140}

Because pre-approval confers no protection on teachers, \textit{Mayer} actually encourages school boards to use teachers as scapegoats when parents object to classroom speech.\footnote{141} Suppose a teacher seeks approval for discussing a certain topic in class, which might upset a small minority of parents in the community. A principal outside the Seventh Circuit would have to weigh the educational benefits of the discussion against the potential parental backlash. If the backlash will be substantial, the principal will protect the reputation of the school by disallowing the discussion. In the Seventh Circuit, a principal could approve the discussion, and then if the parents become upset, the


\footnote{138} See, \textit{e.g.}, \textit{Stachura}, 763 F.2d at 214-15.

\footnote{139} See Mayer v. Monroe County Cnty. Sch. Corp (\textit{Mayer II}), 474 F.3d 477, 480 (7th Cir. 2007).


principal could fire the teacher as a scapegoat.\textsuperscript{142} Even worse, the school board could fire a teacher who simply taught the prescribed curriculum, which happens to upset a group of parents.

While this example may seem far-fetched, a few district courts have already allowed this to happen. In \textit{Stachura v. Truszkowski}, a teacher taught a sex education course approved by the principal and school board.\textsuperscript{143} After a few parents complained, the school board suspended the teacher, ignoring the fact that it had created the class. A district court upheld the school board’s decision, and as a result, the teacher suffered through years of harassment from the community and enmity from the national media.\textsuperscript{144} The Sixth Circuit later reversed the district court and ruled that the school board could not fire him for simply doing his job.\textsuperscript{145} In \textit{Erskine v. Board of Education} a teacher was fired for writing the Spanish word for black, “negro,” on the board during a Spanish lesson on colors.\textsuperscript{146} A district court in the Fourth Circuit, reasoned that under, \textit{Boring v. Buncombe}, the word was a part of the lesson plan, thus it was per se unprotected speech.\textsuperscript{147} Teachers in the Seventh Circuit can now look forward to a similar fate.

While some teachers may feel the sting of \textit{Mayer} after they have been fired, most teachers will feel its effects in the classroom. Most schools encourage teachers to develop creative lesson plans and find new ways to connect with students.\textsuperscript{148} Historically, courts have granted limited protection to these efforts by requiring schools to justify

\begin{footnotesize}
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\item \textsuperscript{142} \textit{See Mayer II}, 474 F.3d at 480.
\item \textsuperscript{143} \textit{Stachura v. Truszkowski}, 763 F.2d 211, 213 (6th Cir. 1985) \textit{(rev’d on other grounds by Memphis Cmty. Sch. Dist. v. Stachura, 477 U.S. 299 (1986))}.
\item \textsuperscript{144} \textit{Stachura}, 763 F.2d at 213-14.
\item \textsuperscript{145} \textit{Id.} at 214-15.
\item \textsuperscript{146} 207 F. Supp. 2d 407, 410 (D. Md. 2002)
\item \textsuperscript{147} \textit{Id.} The court expressed doubt that the teacher was actually dismissed for this incident, but it assumed the truth of the teacher’s assertion for purposes of summary judgment. \textit{Id.} at 409-410.
\item \textsuperscript{148} \textit{See Magnet School a Family Affair}, HERALD \& REVIEW, Apr. 3, 2007; \textit{Give Teachers Flexibility}, BANGOR DAILY NEWS, Mar. 28, 2007 at A8.
\end{itemize}
\end{footnotesize}
actions against teachers. Because *Mayer* completely removes this protection, it strongly discourages teachers from developing creative teaching methods or even explaining difficult concepts in their own words.

Teachers may even experience this chilling effect outside the classroom. *Mayer* holds that the First Amendment does not protect a teacher’s speech when the teacher is “conducting the education of captive audiences.” Just when does a teacher stop teaching? May a teacher express an opinion to students who linger in the classroom after hours? During lunch break? During a school event such as a sporting event or reception? While the court need not answer these questions now, the prospects for teachers do not look promising.

To some extent, these questions are natural reactions to the Supreme Court’s *Garcetti* decision, rather than to *Mayer*. But the line between personal and professional life is much blurrier for teachers than for district attorneys. Society encourages teachers to connect with their students and inspire them, and popular culture celebrates teachers with creative and inspirational methods.

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151 See *Piggee v. Sandburg*, 464 F.3d 667, 671 (2006) (explaining that the instructor/student relationship does not end the moment class is over).
152 *Mayer v. Monroe County Cmty. Sch. Corp (Mayer II)*, 474 F.3d 477, 480 (7th Cir. 2007).
154 *See Garcetti v. Ceballos*, 126 S. Ct. 1951, 1968 (Souter, J. dissenting) (arguing that the majority opinion invites litigation over whether an employees comments were made pursuant to official duties).
155 See *id.* at 1970 (Souter, J. dissenting); *Piggee*, 464 F.3d at 671.
IV. ANALYSIS OF TESTS AVAILABLE TO THE MAYER COURT

Mayer ignores several judicial tests that it could have applied. Besides Garcetti, the Seventh Circuit could have applied traditional Pickering analysis, Hazelwood analysis, Piggee analysis, or some other test.

A. The Garcetti Rule

Although Garcetti preserves the opportunity for circuit courts to apply different tests in the school setting,\textsuperscript{156} the Seventh Circuit adopts it without much discussion. The Supreme Court was concerned that the school setting presents different interests which may require further analysis,\textsuperscript{157} but Mayer does not address this concern. Unfortunately, this concern is well founded because teacher-student communication is very different from communication between fellow employees.

Garcetti attempts to resolve a conflict between an employee’s right to criticize an employer, and the government’s need to operate effectively and efficiently.\textsuperscript{158} It promotes workplace efficiency by minimizing the government’s role in employment litigation. The Supreme Court did not want to chill supervisors from terminating incompetent or uncooperative employees out of fear that termination would lead to a time consuming lawsuit.\textsuperscript{159} Suppose a police officer expresses to her supervisor that his plan for allocating officers will fail, and the supervisor immediately fires the officer for doubting him.\textsuperscript{160} While termination in this case may be a petty managerial decision, Garcetti over-protects the supervisor.\textsuperscript{161} Without Garcetti, the supervisor might be forced to work with uncooperative officers out

\textsuperscript{156} See Garcetti, 126 S. Ct. at 1962.
\textsuperscript{157} See id. at 1969-70 (Souter, J. dissenting).
\textsuperscript{158} See id. at 1958.
\textsuperscript{159} See id. at 1961.
\textsuperscript{160} See Mills v. City of Evansville, 452 F.3d 646, 647 (7th Cir. 2006).
\textsuperscript{161} See id. at 648.
of fear that termination could lead to a lawsuit. *Garcetti* over-protects supervisors from retaliation for petty employment decisions so they don’t need to justify every employment decision to a court.

There is no comparable need for over-protection in the education context. While an employer may need to promote workplace efficiency by removing uncooperative employees, school boards can protect students by setting the curriculum and explaining it to teachers.\(^\text{162}\) They should not be chilled from firing teachers for inappropriate classroom expression because they can protect students by first instructing teachers to remain on topic.\(^\text{163}\) If a teacher ignores the school board and continues to expose children to inappropriate material, the school board can fire the teacher for insubordination.\(^\text{164}\)

*Mayer* also ignores key legal distinctions in *Garcetti*. The Supreme Court stated that “[r]estricting speech that owes its existence to a public employee’s professional responsibilities does not infringe any liberties the employee might have enjoyed as a private citizen.”\(^\text{165}\) This pronouncement is inappropriate in an academic context. In the university setting, a political theory professor’s writings and speeches may be made pursuant to official duties. Nonetheless, that professor still has a First Amendment right to criticize the government.\(^\text{166}\) While this argument is less persuasive for primary and secondary teachers,

\(^\text{162}\) See *Webster* v. New Lenox Sch. Dist. No. 122, 917 F.2d 1004, 1008 (7th Cir. 1990).

\(^\text{163}\) This argument relies on the fact that almost all schools maintain conduct guidelines. For example, the biology curriculum need not specify that the teacher should not use profanity because this obvious rule is in the school’s code of conduct. See, e.g., *Lacks* v. Ferguson Reorganized Sch. Dist. R-2, 147 F.3d 718, 723-24 (8th Cir. 1998) (finding that the school had given the teacher sufficient notice of proscribed conduct by specifying conduct in the “Student Discipline Code,” among other things).

\(^\text{164}\) See *Webster*, 917 F.2d at 1008.

\(^\text{165}\) *Garcetti*, 126 S. Ct. at 1960.

\(^\text{166}\) See id. (Souter, J. dissenting) at 1969-70.
the Seventh Circuit does not always distinguish between these two settings.\(^{167}\)

By applying *Garcetti*, the Seventh Circuit has given school authorities an axe where a scalpel would be more appropriate. School authorities may now remove any teacher without cause simply by stating that classroom speech was the reason for removal.\(^{168}\) While this axe may be used to protect impressionable children, it may also have the undesirable effect of discouraging any teacher creativity or spontaneity.\(^{169}\)

Because *Garcetti* is not concerned with protecting students from inappropriate material, it is completely inappropriate for teacher classroom speech cases. Nonetheless, the Supreme Court’s language in *Garcetti* is broad enough to apply in these cases.\(^{170}\) Because this case is a natural extension of *Pickering*, most courts that apply *Pickering* will probably adopt *Garcetti* for teacher classroom speech cases.

**B. The Pickering Public Concern Test**

Because *Pickering* dealt with substantially similar facts, it presents the same difficulties as applying *Garcetti* to teacher classroom speech. Nonetheless, four circuits have already decided to apply *Pickering* in this setting.\(^{171}\) Unfortunately, only the Fourth


\(^{168}\) See Mayer v. Monroe County Cmty. Sch. Corp (*Mayer II*), 474 F.3d 477, 479 (7th Cir. 2007).

\(^{169}\) See Weiner, *supra* note 150, at 600.

\(^{170}\) See *Garcetti*, 126 S. Ct. at 1962.

Circuit has acknowledged the circuit split and offered reasons for its decision to apply *Pickering*.172

The Fourth Circuit’s decision in *Boring v. Buncombe* involved a drama teacher who was punished for producing a school play that violated the school’s controversial materials policy.173 The court categorically denied protection to official teacher speech. The *Boring* majority explained that its primary concern was to ensure that the school board, not teachers, controlled the curriculum.174 The court applied *Pickering* because it specifically dealt with public employee speech, while *Hazelwood* dealt with student speech.175 In addition, *Hazelwood* would force courts to make curricular decisions which should rest with the school board.176 The court worried that teachers could harass school officials by requiring them to justify every curricular decision in court. This result would be un-democratic because each judge would have a different opinion about what a legitimate pedagogical concern is.177 This argument is not specific to *Hazelwood* because school boards may be equally burdened by arguing that a teacher’s speech is not a matter of public concern.178

The *Pickering* test is inappropriate in a school setting because it focuses on the wrong elements. The “public concern” element is ill suited for teacher classroom speech.179 This speech is neither ordinary workplace speech, nor public debate. It is not difficult to imagine such a test casting a “pall of orthodoxy over the classroom” such that a teacher may only discuss well known issues or opinions. The “workplace efficiency” element is also inappropriate because it

173 Id. at 366-67.
174 Id. 370-71.
175 See id. at 373 (Luttig, J. dissenting).
176 Id.
177 Id. at 371 (Wilkinson, J. concurring).
178 See id. at 378-79 (Motz, J. dissenting); see, e.g., *Cockrel v. Shelby County Sch. Dist.*, 270 F.3d 1036 (6th Cir. 2001).
179 See *Boring*, 136 F.3d at 378 (Motz, J. dissenting).
focuses on the effect of the speech on fellow teachers rather than students.\footnote{See Boring, 136 F.3d at 378 (Motz, J. dissenting).} For example, because drug legalization is a hotly debated topic it is certainly a matter of public concern. If an elementary school teacher raises this topic in class it should not prevent other teachers from teaching their students. Accordingly, under \textit{Pickering} a teacher may discuss the merits of drug legalization in an elementary school class.\footnote{See Cockrel, 270 F.3d at 1051.} The \textit{Pickering} test was simply not designed for teacher classroom speech because it does not account for the fact that classroom speech involves young students.\footnote{See Daly, supra note 3, at 52; Emily Holmes Davis, Note and Recent Development, \textit{Protecting the “Marketplace of Ideas”: The First Amendment and Public School Teachers’ Classroom Speech}, 3 \textit{FIRST AMEND. L. REV.} 335, 361-64 (2005); \textit{Piggee v. Sandburg}, 464 F.3d 667, 672 (2006).}

If the Seventh Circuit had applied \textit{Pickering}, it would have likely concluded that Mayer’s speech was protected. It would have to conclude that the war in Iraq is a matter of public concern.\footnote{The parties agreed as much. Mayer v. Monroe County Cmty. Sch. Corp \textit{(Mayer I)}, 1:04-CV-1695-SEB-VSS, 2006 U.S. Dist. LEXIS 26137, at *1, *33 (S.D. Ind. Mar. 10, 2006).} It would next have to apply the \textit{Pickering} balancing test, which weighs Mayer’s free speech interest against the school’s interest as an employer.\footnote{The district court avoided this step by ignoring the “public concern” part of the \textit{Pickering} test, and ruling that Mayer was speaking as a public employee, rather than a private citizen. \textit{Id.} at *39.} Because the school board did not bring forth any evidence that Mayer’s comments hurt teacher efficiency or the workplace environment, the court would be hard pressed to rule that Mayer’s speech was not protected.
C. The Hazelwood Legitimate Pedagogical Concern Test

Four circuits apply Hazelwood to teacher classroom speech. Unfortunately, none offers reasons for this preference. Although Hazelwood dealt with student speech, it is the Supreme Court’s most recent case dealing with classroom speech. Unlike Pickering, it accounts for school boards’ needs to protect students from inappropriate material.

Under Hazelwood, a school could prevent a student from expressing disapproval of the war in Iraq if it had a legitimate pedagogical reason. The Supreme Court designed this test to balance the speaker’s right to self expression against the school’s need to protect students from speech “inconsistent with ‘the shared values of a civilized social order.’” When a teacher speaks in the classroom the same conflict of interests arises.

The Fourth Circuit has criticized courts applying Hazelwood to teacher classroom speech because these courts force judges to monitor school board decisions. This result is un-democratic because judges must determine what a “pedagogical concern” is rather than the school board. The Fourth Circuit’s argument ignores the fact that courts already monitor school board decisions. In Hazelwood, the Supreme

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188 See Kuhn, supra note 61, at 1014 (asserting that Courts apply Hazelwood to teacher classroom speech because it better recognizes the interests of the state as educator, while Pickering focuses on the state as employer).
189 Hazelwood, 484 U.S. at 271-72.
190 Id. at 272 (citing Bethel v. Fraser, 478 U.S. 675, 683 (1986)).
191 See Kuhn, supra note 61, at 1014-15 (explaining why the Hazelwood test is an appropriate test for teacher classroom speech).
193 See id.
Court rejected the argument that courts can never interfere with school boards’ curricular decisions; a school board must justify any curricular decision with some legitimate pedagogical reason.194 It should not matter if a curricular decision is challenged by a student or a teacher. The Supreme Court was likely motivated by the belief that unbounded discretion to school boards is far more dangerous than occasionally forcing schools to justify curricular decisions.195

Suppose a school board decided that all teachers must teach creation science rather than evolution, and it fired a teacher and expelled a student for discussing evolution in the classroom.196 The teacher and student sue. In this case, the Fourth Circuit would reach a bizarre result. It would invalidate the school board’s curricular decision because it violated the Establishment clause,197 and would reinstate the student because the school board violated his First Amendment right to expression.198 Nonetheless, it would uphold the school board’s decision to fire the teacher because it would be undemocratic to monitor school board decisions.199 There is no principled reason for not applying Hazelwood uniformly and avoiding this bizarre result.

Under Hazelwood, the Seventh Circuit would probably conclude that the school board violated Mayer’s rights. The court would probably explain that a school board may prevent teachers from expressing political opinions in the classroom because the Supreme Court has stated that schools may refuse to sponsor speech that “associate[s] the school with any position other than neutrality on matters of political concern.”200 The Seventh Circuit has interpreted

194 See Hazelwood, 484 U.S. at 273.
195 See id. (explaining that although educators, not judges, should educate the nation’s youth, courts may still need to intervene to protect First Amendment rights).
196 This hypothetical is based on Edwards v. Aguillard, 482 U.S. 578 (1987).
197 See id. at 596-97.
198 See Hazelwood, 484 U.S. at 273.
200 Hazelwood, 484 U.S. at 272.
this language to mean that a school can maintain neutrality by censoring controversial viewpoints in school-sponsored speech. Nonetheless, because there is no evidence that the school board gave Mayer prior notice that she could not express her opinion, it could not fire her. If she had later expressed a similar controversial opinion the school board could have fired her.

D. Distinguishing Piggee

The Mayer Court could have decided not to distinguish Piggee. The court based its distinction on the fact that Piggee was not hired to preach against homosexuality, but Mayer was hired to discuss current events. While this distinction is factually accurate, giving it legal significance leads to bizarre results.

Because Mayer expressed her disapproval of the war in Iraq during a current events class, her speech is categorically unprotected. Suppose Mayer had expressed her opinion during math class. Since Mayer’s opinion was outside the scope of her duty to teach math, her speech would not be categorically unprotected. The court would have to apply the Piggee test: the school could punish her only if her opinion was “nongermane” speech that “impede[d] the school’s educational mission.” Because her comments were very brief and not overbearing, a court might conclude that her speech should be protected. This result would be especially bizarre if Mayer actually taught both classes—she could opine on the war in the morning during math class, but she will be fired if she opines on the

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201 See Muller v. Jefferson Lighthouse Sch., 98 F.3d 1530, 1542 (7th Cir. 1996) (explaining that schools can suppress some viewpoints).
203 Mayer v. Monroe County Cmty. Sch. Corp (Mayer II), 474 F.3d 477, 480 (7th Cir. 2007).
204 See id.
205 See id. at 480 (explaining that Garcetti did not apply in Piggee because the teacher was discussing an unassigned topic).
206 See Piggee, 464 F.3d at 672.
207 See id.
war in the afternoon during current events class. The court could have avoided this situation if it had consistently applied either the Piggee or Hazelwood test, i.e. explain that the school must provide a legitimate pedagogical reason for firing Mayer regardless of whether the speech occurred in math class or current events class.

E. Other Tests

Commentators have offered several different tests which the Mayer could have applied. While these tests have less support from case law, there may be policy reasons for adopting one of these tests.

Walter Kuhn has proposed a hybrid Pickering/Hazelwood test that is designed to maximize protection afforded to teachers.208 Restrictions on process are evaluated under Hazelwood, and restrictions on content are evaluated under Pickering.209 For example, Mayer’s decision to discuss the war in Iraq was a content based decision so the school can only punish her for the speech if it does not touch on a matter of public concern. Since the war in Iraq is a matter of public concern, the school could not punish the speech. Mayer’s structuring of the class consists of process decisions which the school may punish if it has a legitimate pedagogical reason. Kuhn’s test has two main problems: the distinction between content and process restrictions is frequently vague,210 and it is far too deferential too teachers. If the Seventh Circuit adopted the test, it would have to reverse Webster and rule that teachers may refuse to teach content specified in the curriculum so long as they discuss other content which touches upon matters of public concern.211

Karen Daly has proposed a more moderate mixed procedural-substantive test which accounts for the amount of notice school boards

\footnotesize
208 See Kuhn, supra note 61, at 1020-21.
209 Id.
210 Id. at 1023.
211 See Webster v. New Lenox Sch. Dist. No. 122, 917 F.2d 1004, 1008 (7th Cir. 1990).
provide to teachers.212 When a school has explicitly prohibited specific speech, the teacher has no protected right to engage in that speech. When a school has explicitly authorized specific speech, the teacher is immunized from action. In the great majority of cases where notice is ambiguous, courts should apply a modified *Hazelwood* test.213

When a reasonable teacher should have known that the school board has prohibited certain speech, courts should presume that the school board has a legitimate pedagogical reason for prohibiting the speech.214 When a reasonable teacher would expect certain speech to be protected, the judicial presumption would shift in favor of the teacher. The school can rebut this presumption by presenting evidence that the speech had no educational purpose, or had a detrimental effect on students’ Constitutional rights.215 This test might also be too deferential to teachers. By categorically protecting approved teacher speech this test prevents school boards from re-evaluating decisions.

V. WHY MAYER SHOULD HAVE APPLIED HAZELWOOD

Under *Mayer*, public schools now have carte blanche to fire any teacher who expresses an unpopular opinion.216 This is a very powerful tool for protecting children from inappropriate material. Unfortunately, this tool is unnecessary and creates numerous practical problems.217

The court applied *Garcetti* because it wanted to ensure that school boards, not teachers or judges, make decisions about the school curriculum. However, this concern does not justify a per se rule that teacher classroom speech is unprotected. If the school had also suspended a student for discussing the war in Iraq in class, the court

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212 See Daly, *supra* note 3, at 53-54.
213 *Id.* at 54-55.
214 *Id.*
215 *Id.*
216 See *Mayer v. Monroe County Cmty. Sch. Corp (Mayer II)*, 474 F.3d 477, 480 (7th Cir. 2007).
217 See *supra* sec. III.
would evaluate whether this constraint on student speech is justified under *Hazelwood*, i.e. a judge would evaluate whether the school board had a legitimate pedagogical reason for censoring discussion of the war in Iraq.\(^{218}\) Thus, *Mayer* provides no added immunity to school boards, it just encourages students to challenge school board decisions rather than teachers.\(^{219}\) The Seventh Circuit has created no benefit for school boards, but it has created numerous problems for teachers, students, and schools as outlined above in Section III.

Because *Garcetti* and *Pickering* dealt with significantly different concerns, the Seventh Circuit should not have applied that line of cases in *Mayer*. The court should have maintained its earlier distinction between teacher employee speech which is evaluated under the *Pickering* line,\(^{220}\) and teacher classroom speech which is evaluated under *Hazelwood*.\(^{221}\)

This approach avoids the numerous problems created by a per se rule against protecting classroom speech.\(^{222}\) In addition, the *Hazelwood* test more appropriately balances parents’ interests in protecting students from inappropriate material, and teachers’ interests in protecting their First Amendment rights.\(^{223}\) Although it may import some judicial oversight into school boards’ curricular decisions, the modest requirements of the test should not be burdensome.

Furthermore, the court should consider the amount of notice provided to teachers regarding prohibited speech.\(^{224}\) While there is

\(^{218}\) See note 196 and accompanying text.

\(^{219}\) The next case in this line may be brought by a student claiming a First Amendment right to hear from and discuss with a teacher. See Daly, *supra* note 3, at 31 (discussing the concept of a student’s right to hear).

\(^{220}\) See Trejo v. Shoben, 319 F. 3d 878 (7th Cir. 2003); Dishnow v. Sch. Dist. of Rib Lake, 77 F.3d 194 (7th Cir. 1996).

\(^{221}\) Webster v. New Lenox Sch. Dist. No. 122, 917 F.2d 1004, 1008 (7th Cir. 1990).

\(^{222}\) See *supra* note 119 and accompanying text.

\(^{223}\) See Daly, *supra* note 3, at 53.

\(^{224}\) See Lacks v. Ferguson Reorganized Sch. Dist., R-2, 147 F.3d 718, 723 (8th Cir. 1998); Ward v. Hickey, 996 F.2d 448, 452 (1st Cir. 1993); Daly, *supra* note 3, at 53.
little case law to support Karen Daly’s shifting presumption test, courts should consider notice when evaluating schools’ pedagogical concerns. Some notice to teachers is prima facie evidence that the school does in fact have a legitimate pedagogical interest in censoring the speech. When the school retaliates without any prior notice, as in Mayer’s case, the school will probably have a more difficult time explaining its pedagogical interest.

Under this approach, the court should have remanded the case to the trial court to determine if the school had a legitimate pedagogical interest in terminating Mayer. While the school may have strong arguments to support its decision, the Seventh Circuit should require the school to explain them in court. Mayer and her students are at least entitled to know why the short classroom discussion was so devious that it rendered Mayer unfit for teaching.

CONCLUSION

The Seventh Circuit has overruled the balance struck in Webster v. New Lenox between a teacher’s rights and a school board’s power to control the curriculum. While its opinion is literally consistent with Garcetti v. Ceballos, it completely ignores the fact that discussions between teachers and students are very different from discussions between fellow employees. Mayer v. Monroe is so deferential to school boards that few teachers will even attempt to challenge school board decisions in the future. Thus, the Seventh Circuit will probably not have an opportunity to revisit this decision any time soon. In the meantime, teachers in the Seventh Circuit will have to shed the freedom of speech at the classroom door.

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225 See Daly, supra note 3, at 53.
LICENSEE BEWARE: THE SEVENTH CIRCUIT HOLDS THAT A PATENT LICENSE BY ANY OTHER NAME IS NOT THE SAME

CAMERON R. SNEDDON


INTRODUCTION

Intellectual property licensing has grown significantly over the years with a global market estimated at more than $100 billion.\(^1\) In fact, “intellectual property assets account for 40% of the net value of all corporations in America.”\(^2\) Notwithstanding the likelihood of more and more licensing transactions, a complex area of the law, patent licensing has not received much attention in legal journals and scholarly publications.\(^3\) As companies increasingly license and cross-

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\(^*\) J.D. Candidate May 2007, Chicago-Kent College of Law, Illinois Institute of Technology; B.S. Chemical Engineering, April 1999, Brigham Young University. Cameron R. Sneddon would like to thank his family, namely his wife Rachel and son Eric, for their unconditional love and support, and his parents, Roy and Kathleen Sneddon for their example of pursuing higher education and emphasizing the importance of scholarship. The author also wishes to thank Assistant Professor Tim L. Field for his many helpful comments and criticisms of previous drafts. Of course, any remaining errors or omissions belong to the author.

\(^1\) Kenneth L. Port, Jay Dratler, Jr., Faye M. Hammersley, Terence P. McElwee, Charles R. McManis & Barbara A. Wrigley, LICENSING INTELLECTUAL PROPERTY IN THE INFORMATION AGE xvii (2d ed. 2005).

\(^2\) Id.

\(^3\) Rachel Clark Hughey, Licensee by Estoppel, 14 ALB. L.J. SCI. & TECH. 53, 54 (2003).
license technologies, issues arising about the nature and meaning of
license agreements will likely be litigated, particularly because
licensing agreements combine matters governed by state contract law
and federal patent law.

One area of patent licensing not discussed in depth is if a
settlement for patent infringement may ever be considered a patent
license agreement. The legal designation of a patent settlement as a
patent license agreement will have implications for licensees with a
“most favored licensee” status, a legal clause granting deferential
treatment to a licensee in order to prevent a “competitive disadvantage
resulting from more-favorable terms granted to another licensee.”
Although some courts have decided this issue, they have decided
differently what effect, if any, a patent settlement agreement has on an
existing third party licensee with a “most favored licensee” clause in
the license agreement.

In *Waterloo Furniture Components Ltd. v. Haworth, Inc.*, a case
of first impression, the Seventh Circuit recently held that “[a]n
settlement for past infringement entered into after [a patent expires is
not] a license.” Additionally, the Seventh Circuit acknowledged that
federal appellate courts are divided on whether a settlement agreement

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5 See *Rhone-Poulenc Agro v. DeKalb Genetics Corp.*, 284 F.3d 1323, 1327-28
(Fed. Cir. 2002).
6 *Willemijn Houdstermaatschappij, BV v. Standard Microsystems Corp.*, 103
F.3d 9, 13 (2d Cir. 1997).
7 See *Ransburg Electro-Coating Corp. v. Spiller & Spiller*, 489 F.2d 974 (7th
Cir. 1973) and *Studiengesellschaft Kohle v. Novamont Corp.*, 704 F.2d 48, (2d. Cir.
1983) (each case finding that a patent settlement agreement may not be construed as
a license); *Shatterproof Glass Corp. v. Libbey-Owens-Ford Co.*, 482 F.2d 317 (6th
Cir. 1973) and *Studiengesellschaft Kohle v. Hercules*, 105 F.3d 629 (Fed. Cir. 1997)
(each ruling that a patent settlement agreement may be considered a license).
8 *Waterloo Furniture Components Ltd. v. Haworth, Inc.* (“*Waterloo II*”), 467 F.
3d 641 (7th Cir. 2006).
9 For the first time, a court explicitly held that a settlement agreement is not a
license in the context of an expired patent. Other courts, including the Seventh
Circuit, have resolved the issue (albeit differently) in the context of an unexpired
patent, see *supra* note 7.
10 *Waterloo II*, 467 F.3d at 647 (emphasis added).
entered into before a patent expires constitutes a license. The linchpin in any of the regional appellate court’s reasoning on the issue boils down its their correct or incorrect understanding of what essentially a patent license constitutes. For example, what ultimate effect does a patent license serve and is a license solely prospective in nature with no retroactive qualities?

Part I of this Note describes the relevant background of patent law, patent infringement, and patent licenses. Part II explains the circuit split among the Federal Regional Courts of Appeal, including the Waterloo decision. Part III of this Note contends that patent licenses have a unique nature given their purpose, including retroactive qualities, and that a settlement for past patent infringement, regardless of whether the patent has expired or not, may constitute a license, especially when the settlement implicates a “most favored licensee” clause. Part IV of this Note explains the implications of the Seventh Circuit’s Waterloo decision, especially because of the increasing importance of patent law and licensing agreements.

I. BACKGROUND

A. Patent Law

A patent grants the patentee a right to exclude others from making, using, selling, or offering to sell the patented invention within the United States, or importing the invention to the United States. Frequently the right to exclude is commonly misunderstood. Many

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11 Id. at 647 n.1.
12 Although sometimes referred to as a “most favored nation” clause, see, e.g., id. at 643-48, to be more accurate, this Note uses only the phrase “most favored licensee”.
13 The word patentee as used in this Note has the same meaning as its statutory definition in 35 U.S.C. § 100 (d) (2000) (“The word ‘patentee’ includes not only the patentee to whom the patent was issued but also the successors in title to the patentee”).
people, including those in the legal profession, experts on patent law, and even judges, conflate the statutory right to exclude with a permissive and exclusive right of the patentee to actually make, use, or sell the patented invention. The resulting confusion is understandable, however. Over the years, Congress has changed the language of the statute specifying the rights granted a patentee, and it is common for people to assume that intellectual property ownership, like other types of property ownership, carries with it the three basic property rights: the right to use, the right to exclude, and the right to transfer.

Patent laws have existed since 1790, but Congress enacted the current patent statute in 1952 under Title 35 of the United States Code. Because a patent grants an exclusive right to the mental concept of the invention, “a patent protects no single physical embodiment of an invention as such; rather it controls the abstract information in the invention, as expressed in the patent’s claims.”

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15 For instance, the well-known and generally respected Black’s Law Dictionary defined the rights a patent grants as “the exclusive right to make, use or sell an invention for a specified period” in the 7th edition. BLACK’S LAW DICTIONARY 1147 (7th ed. 1999). However, the 8th edition defines the rights a patent grants as the “right to exclude.” BLACK’S LAW DICTIONARY 1156 (8th ed. 2004).

16 See, e.g., Arthur R. Miller & Michael H. Davis, INTELLECTUAL PROPERTY: PATENTS, TRADEMARKS AND COPYRIGHT IN A NUTSHELL 11 (1983) (describing the right a patent grants as “giving the patentee the exclusive right to make, use, or sell the invention”).

17 United States v. Univis Lens Co., 316 U.S. 241, 250 (1942) (“The full extent of the monopoly is the patentee’s “exclusive right to make, use, and vend the invention”.

18 See Part IIIA1, infra.

19 See Kenneth L. Port, Jay Dratler, Jr., Faye M. Hammersley, Terence P. McElwee, Charles R. McManis & Barbara A. Wrigley, LICENSING INTELLECTUAL PROPERTY IN THE INFORMATION AGE 5-6 (2d ed. 2005).


exchange for disclosing the patented invention in sufficient detail
within the patent application, the Government grants the patentee a
twenty-year monopoly from the filing date of the patent to exercise
any of the exclusionary rights.\textsuperscript{22}

The monopolistic rights give the patentee the ability to gain
financially from the patent in various ways.\textsuperscript{23} The patentee may sell
the invention or rights to the invention at monopolistic prices to
recoup any investment costs into research of the patented technology,
or simply to realize a profit.\textsuperscript{24} The patentee may assign or license all or
some of the patent rights to another in exchange for any price or even
no price at all.\textsuperscript{25} A patentee may license use of the patented technology
to another in exchange for royalties, rights to use another patented
technology (cross-licensing agreements), or for just about anything
that the parties agree upon.\textsuperscript{26} In short, a patent grants rights similar in
function to holders of tangible property\textsuperscript{27}—except the right to use.\textsuperscript{28}

\textsuperscript{22} 35 U.S.C. § 154(a) (2000).
\textsuperscript{23} James Bessen & Michael J. Meurer, Lessons For Patent Policy From
discussing three main sources of profits derived from patents: (1) excluding
competitors, (2) forcing competitors to accept licenses, (3) strategically using patents
to avoid litigation such as using patents to facilitate cross-licensing and opportunistic
and anticompetitive patent suits based on weak or invalid patents).

\textsuperscript{24} See, e.g., Crown Die & Tool Co. v. Nye Tool & Mach. Works, 261 U.S. 24,
36-37 (1923) ( “[T]he government is not granting the common-law right to make,
use and vend, but it is granting the incident of exclusive ownership of that common-


\textsuperscript{26} See Bessen & Meurer, supra note 23, at 9-10.


\textsuperscript{28} See 35 U.S.C. § 154(a) (2000); see also Part IIIA1, infra.
B. Patent Infringement

Patent infringement occurs when “[anyone] without authority makes, uses or sells any patented invention, within the United States during the term of the patent thereof.” Patent infringement occurs when “[anyone] without authority makes, uses or sells any patented invention, within the United States during the term of the patent thereof.”29 A patent term begins the day the patent issues and ends twenty years from the filing date of the patent application.30 An entity may infringe a patent in three ways: direct infringement, contributory infringement, and induced infringement.31

The remedy for patent infringement may include injunctions,32 monetary damages (including treble damages),33 and even attorney’s fees34 in warranted cases. By statute, the court awards monetary damages adequate to compensate for infringing the patented invention.35 A court may calculate adequate compensation based on the patentee’s lost profits due to the infringing activities of the infringer.36

Furthermore, statutory law mandates a minimum amount of damages awarded to the patentee.37 A court calculates the “floor” award for patent infringement damage based on “a reasonable royalty for the use made of the invention by the infringer.”38 However, statutory law also places temporal limits on the amount of damages sought by the patentee.39 35 U.S.C. § 286 confines collecting damages to six years “prior to the filing” of an infringement claim.40

38 Id.
40 Id.
Lastly, the Court of Appeals for the Federal Circuit has exclusive appellate jurisdiction in cases involving issues of patent law.41 The Federal Circuit is a court of Federal Appeals especially created to hear, among other things, patent cases appealed from Federal District Courts and, as such, has no geographic limitations within the United States and its territories.42 Thus, substantive patent law comes substantially from the Federal Circuit or the Supreme Court.43 Although after Holmes Group Inc. v. Vornado Air Circulation Systems,44 other federal appellate courts may decide substantive patent law issues when a compulsory counterclaim pleads substantive patent law issues, even though the complaint does not assert any claim arising under the patent laws of the United States.45

C. Licensing

The owner of a patent may grant licenses to others.46 Since the patentee has the right to exclude others from making, using, offering for sale or selling, or importing the invention,47 no one else may engage in any of these acts without the patentee’s permission without risking liability for infringement.48 While federal statutory and case law governs substantive patent law, state laws govern interpretation of license agreements due to their contractual nature.49 However, where

state contract law yields inconsistent results with federal patent policy, federal patent law governs.50

Patent license agreements may be exclusive, partially exclusive, or nonexclusive.51 A license “[i]n its simplest form . . . means only leave to do a thing which the licensor otherwise would have a right to prevent.”52 Thus, a patent license agreement is in essence nothing more than a promise by the licensor not to sue the licensee,53 though an exclusive license agreement may also grant the licensee the right to sue other infringers.54

A patentee may limit the license agreement by geography, by duration, or by invention scope.55 A license may grant unrestricted or limited use in a particular field.56 For example, a patentee may limit a license agreement for a patented veterinary drug to only dogs in California for two years but not other animals in other states. Generally, the license agreement may include whatever provisions the

50 In re CFLC, Inc., 89 F.3d 673, 677 (9th Cir. 1996) (quoting Lear v. Adkins, 395 U.S. 653, 673 (1969)) (“The construction of a patent license is generally a matter of state contract law, except where state law ‘would be inconsistent with the aims of federal patent policy’”).
51 Drackett Chem. Co. v. Chamberlain Co., 63 F.2d 853, 855 (6th Cir. 1933).
52 W. Elec. Co., Inc. v. Pacent Reproducer Corp. 42 F.2d 116, 118 (2d Cir. 1930).
54 See Group One, Ltd. v. Hallmark Cards, Inc., 254 F.3d 1041, 1053 (Fed. Cir. 2001) (Lourie, J. additional remarks) (“A patent license, if it is non-exclusive, is an agreement to forbear from suit. If the license is exclusive, it may be tantamount to an assignment of the patent”); see also Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc., 248 F.3d 1333, 1345 (Fed. Cir. 2001) (“An exclusive licensee receives more substantial rights in a patent than a nonexclusive licensee, but receives fewer rights than an assignee of all substantial patent rights”).
55 See Spindelfabrik Suessen-Schurr Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft, 829 F.2d 1075, 1081 (Fed. Cir. 1987) (“In any event, patent license agreements can be written to convey different scopes of promises not to sue, e.g., a promise not to sue under a specific patent or, more broadly, a promise not to sue under any patent the licensor now has or may acquire in the future”); see also Intellectual Prop. Dev., 248 F.3d at 1345 (“[A]n exclusive licensee could receive the exclusive right to practice an invention within a given limited territory”).
parties agree upon, such as the payment of royalties, duration of the agreement, exclusive or non-exclusive terms, and permitted uses—for example, selling but not making.57

A license is a contract,58 and may be written or oral,59 express60 or implied.61 The terms and conditions of the license must be consistent with the scope of the patent.62 No particular form of license is required.63 A license may also explicitly include a release from past infringement,64 though the agreement itself releases the infringer from any rights of the patentee to exclude the infringer from using the patented invention.65

License agreements may also include a “Most Favored Licensee” (MFL) or “Most Favored Nation” clause. A MFL clause protects the licensee from “a competitive disadvantage resulting from more-favorable terms granted to another licensee.”66 MFL status assures the licensee that it will not pay more in royalties than another licensee, and usually that the licensor will inform the licensee of any other

57 Id. at 127 (quoting United States v. Gen. Elec. Co., 272 U.S. 476, 489 (1926)) (“[T]he patentee may grant a license ‘upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure’”)
58 Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings, 370 F.3d 1354, 1369-70 (Fed. Cir. 2004).
61 Hughey, supra note 3, at 55-56.
62 Id.
64 United States v. Line Material Co., 333 U.S. 287, 297 (1948) (“By accepting [the license agreements,] they secured release from claims for past infringement through a provision to that effect in the license”).
65 Id. at 343 (“[T]he nonexclusive license agreement . . . served only to release the licensee from the right of the patent holder to exclude him from making, using or selling a patented article”); see Standard Oil Co. v. United States, 283 U.S. 163, 168 (1931).
licensees and the terms of their agreements. Essentially, MFL clauses suggest that licensed competitors should be treated equally, so long as they bear equivalent obligations to the licensor/patentee.

II. THE CIRCUIT SPLIT AND WATERLOO

Four federal courts of appeal have decided the issue of whether a settlement agreement for patent infringement may constitute a license for an unexpired patent: the Second, Sixth, Seventh, and Federal Circuits. The Second and Seventh circuits decided the issue differently than the Sixth and Federal circuits, and thus their decisions differ in the effect a patent settlement agreement has on an existing third party licensee with a “most favored licensee” clause in the license agreement.

The Seventh Circuit in the Waterloo decision, however, is the only appellate court to decide the issue in the context of an expired patent. A review of the reasoning justifying the holdings of the other federal regional appellate courts in the context of an unexpired patent will help define the split among the circuits and illuminate how that split influenced the Seventh Circuit’s Waterloo decision. First, this Note will explain the circuit split, beginning with the Second and Seventh circuits, followed by the Sixth and Federal Circuits. Finally, this Note will explain the relevant details and reasoning of the Seventh Circuit’s Waterloo decision.

67 See, e.g., Studiengesellschaft Kohle, m.b.H. v. Hercules, Inc., 105 F.3d 629, 633 (Fed. Cir. 1997) (noting that the licensor’s obligation was to notify the licensee of the terms and conditions of any other license agreements, not simply “more favorable” license agreements in the licensors opinion).
69 See Ransburg, 489 F.2d 974 and Novamont, 704 F.2d 48 (each case finding that a patent settlement agreement may not be construed as a license); Shatterproof Glass, 482 F.2d 317 and Hercules, 105 F.3d 629 (each ruling that a patent settlement agreement may be considered a license).
A. Other Federal Courts of Appeal Decisions

1. According to the Second and Seventh Circuits, a settlement agreement is not a license before a patent expires.

Two federal appellate circuits have held that a settlement agreement entered into before a patent expires is not a license agreement: the Second Circuit in Studiengesellschaft Kohle v. Novamont Corp.\(^{70}\) and the Seventh Circuit in Ransburg Electro-Coating Corp. v. Spiller & Spiller.\(^{71}\) Because this Note focuses on the Waterloo decision, only a cursory overview of the reasoning and any pertinent facts in the cases will be given, beginning with the Second Circuit decision in Novamont Corp.

In Novamont Corp., the court held that a settlement agreement for past infringement did not implicate the MFL status of a licensee.\(^{72}\) The court considered the “treatment of an earlier licensee, who was entitled to a MFL clause and a competitor who took a license later, after a period of infringing activity.”\(^{73}\) The licensor granted a license to Novamont in 1967 to produce certain polymers of propylene.\(^{74}\) The license included a “Most Favored Licensee” (MFL) clause requiring the licensor to “promptly furnish Novamont with the full text of any licenses granted under the [patent], if . . . considered in their entirety, the licenses were more favorable than those in the licensee agreement [with Novamont].”\(^{75}\)

Later, the licensor granted a third-party competitor a license but did not promptly inform Novamont about the new agreement.\(^{76}\) When the licensor finally did inform Novamont of the agreement, the licensor did not include in the notification a particular clause within

\(^{70}\) 704 F.2d 48 (2d Cir. 1983).

\(^{71}\) 489 F.2d 974 (7th Cir. 1973).

\(^{72}\) Novamont, 704 F.2d at 52.

\(^{73}\) Id.

\(^{74}\) Id. at 50.

\(^{75}\) Id.

\(^{76}\) Id. at 51-52
the agreement. The clause in the agreement released the third-party competitor from past infringement pending the outcome of another infringement case and permitted the third-party competitor to credit any money the licensor recovered from the third-party competitor for past infringement against royalties the third-party competitor owed the licensor.

In other words, the third-party competitor would pay the licensor royalties for past infringement that would count towards the future royalties the third-party competitor owed the licensor under the license agreement, a two-birds-for-one-stone-type agreement. After Novamont learned of the undisclosed clause, they requested the same treatment, believing that the clause permitted the third-party competitor to pay a reduced royalty because the royalty covered both past and future infringing use of the patented technology.

The Second Circuit disagreed that the clause settling past infringement implicated Novamont’s MFL status for two reasons. First, Novamont could not have benefited from the second license agreement because Novamont had not been an infringer at the time the third-party competitor and the licensor reached the second agreement.

Second, granting Novamont the benefit of the second license agreement terms would require the licensor to insist upon a payment for past infringement from the third-party competitor equal to the “royalty terms governing [Novamont] during the same period, or [the licensor] must make a refund to [Novamont].” Ultimately, the court decided that MFL clauses do not require such a high “degree of equivalency” and courts “have declined to interpret the clauses with that breadth.” The court declined to discuss in any detail the prospective or retroactive qualities of a patent license agreement.

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77 Id. at 51-52
78 Id.
79 Id.
80 Id. at 52.
81 Id.
82 Id.
83 Id.
briefly acknowledging that the Sixth Circuit’s earlier reasoning in *Shatterproof Glass* did not persuade them.84

Next, this Note will review the Seventh Circuit’s *Ransburg* decision, holding that a patent license agreement is prospective in nature and not equivalent to a release for past infringement.85 In *Ransburg*, an accused infringer settled a patent infringement suit by making monthly installments to compensate the patentee.86 Later, in a separate infringement action, a court held the patent invalid.87 The infringer subsequently ceased making payments under the terms of the settlement agreement.88 The patentee sued the accused infringer to recover the remaining amount owed under the settlement agreement.89

The Seventh Circuit rejected the infringer’s arguments that the settlement agreement was a retroactive licensing agreement and that because the patent was now invalid, the infringer no longer had to pay the patentee as obligated by the earlier settlement agreement.90 To require the infringer to continue payment of the settlement agreement would be contrary to the Supreme Court’s policy of “ridding the public of invalid patents thereby dedicating ideas to the common good,” or so the infringer argued.91 The court disagreed with the infringer, reasoning that a patent license has only a prospective quality, negating any possible retroactive effects of a patent license.92 Thus, a patent license is not equivalent to a release for past wrongdoing (a settlement agreement).93 Moreover, the court listed the public policy reasons for continuing to enforce a settlement agreement

84 *Id.* at 52 n.5.
86 *Id.* at 976.
87 *Id.*
88 *Id.*
89 *Id.*
90 *Id.* at 977.
91 *Id.*
92 *Id.* at 977-78.
93 *Id.*
for infringement of a patent, even though the patent was subsequently found invalid.\textsuperscript{94}

2. According to the Sixth and Federal Circuits, a settlement agreement may be a license before a patent expires.

In contrast to \textit{Novamont} and \textit{Ransburg}, two other federal appellate circuits have held that a settlement agreement entered into before a patent expires is a license agreement: the Sixth Circuit in \textit{Shatterproof Glass Corp. v. Libbey-Owens-Ford Co.}\textsuperscript{95} and the Federal Circuit in \textit{Studiengesellschaft Kohle v. Hercules}.\textsuperscript{96} Again, only a cursory overview of the reasoning and any pertinent facts in the cases will be given, beginning with the Sixth Circuit decision in \textit{Shatterproof Glass}.

The \textit{Shatterproof Glass} case, in which the Sixth circuit held that a patent settlement agreement may constitute a license for purposes of a MFL clause,\textsuperscript{97} entails a few unique facts. Shatterproof Glass, a second licensee, entered into a licensing agreement with a licensor in 1955.\textsuperscript{98} The licensing agreement included a MFL clause that covered not only future licenses but also already existing licenses with other third parties.\textsuperscript{99}

The first licensee had originally entered a licensing agreement in 1931.\textsuperscript{100} Later, the first licensee entered into another agreement in 1961 for a release of infringement prior to 1961 of certain patents and a paid-up license under another patent in exchange for lump sum payments.\textsuperscript{101} The license agreement also included a royalty rate for future use of other patents.\textsuperscript{102}

The licensor failed to notify Shatterproof Glass of the more favorable terms found in the 1931 and 1961 agreements, in violation

\textsuperscript{94} \textit{Id.} at 977-78.
\textsuperscript{95} 482 F.2d 317 (6th 1973).
\textsuperscript{96} 105 F.3d 629 (Fed. Cir. 1997).
\textsuperscript{97} \textit{Shatterproof Glass}, 482 F.2d at 321.
\textsuperscript{98} \textit{Id.} at 318.
\textsuperscript{99} \textit{Id.} at 318 n.1.
\textsuperscript{100} \textit{Id.} at 319.
\textsuperscript{101} \textit{Id.}
\textsuperscript{102} \textit{Id.}
of the MFL clause. Shatterproof Glass sought to recover royalties already paid in excess of the more favorable rates the first licensee had paid.

Shatterproof Glass argued that the “nature of the [agreements]” and not their label is controlling, and “that properly construed, the document is a retroactive license.” The Sixth Circuit agreed, reasoning that “a release can, in certain circumstances, have the effect of and be construed as a license.” Additionally the court recognized that a patent license is “a mere waiver of the right to sue by the patentee.” Moreover, the agreement that released the first licensee from any claims of infringement “was in effect a settlement by payment of just compensation for previous use of the patent . . . [otherwise] evasion of a ‘favored [licensee]’ clause [would be] possible.”

Turning now to the Studiengesellschaft Kohle, m.b.H., v. Hercules, Inc. case, the Federal Circuit held that a MFL licensee was entitled to the same terms as a settlement for past infringement by a third-party competitor. In Hercules, a licensor, failed to notify a MFL licensee, Hercules, of another license agreement with a third-party competitor, in violation of the MFL clause. Meanwhile, Hercules had stopped paying royalties during a six-year period, triggering the licensor to commence a patent infringement lawsuit against Hercules.

After Hercules discovered the third-party competitor license agreement with more favorable royalty rates and a release for past infringement, Hercules requested a retroactive license with royalty rates similar to the third-party competitor license agreement, reaching

103 Id. at 319-20.
104 Id.
105 Id. at 320.
106 Id. at 321.
107 Id. at 320.
108 Id. (citing De Forest Radio Tel. Co. v. United States, 273 U.S. 236, 241-42 (1927)).
109 Id. at 634.
110 Id. at 631-32.
back to the date any allegedly infringing activities began, “thereby insulating itself from any infringement claim.”  

The Federal Circuit observed that “absolving six years of infringement via a retroactive license [was] troubling” because it was uncertain if Hercules would have accepted a similar agreement had the licensor offered Hercules the same terms as the third-party competitor license agreement within the timeframe required by the MFL clause. Nevertheless, because the licensor breached the MFL clause by not notifying Hercules of the third-party competitor license agreement within the required timeframe, the uncertainty was the licensor’s to bear.

The Federal Circuit ruled that “Hercules [was] entitled to the terms of the [third-party competitor] license effective May 1980, when the [third-party competitor] license became effective.” Notably, the Federal Circuit did not dwell on the prospective-retroactive potential dualism of a patent license as did the Seventh and Sixth circuits. Instead, the court apparently accepted the possibility of a retroactive license as a concept requiring little to no justification, almost as if the concept itself was self-evident. The uncertain actions of the parties caused the Federal Circuit some hesitancy with its decision but not the concept of a retroactive license itself.

The Sixth and Seventh Circuit courts extensively discussed their rationale for why they decided a settlement agreement or release from past infringement may or may not be considered a patent license, emphasizing the retroactive, or alternatively, the sole prospective

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113 Id. at 634.
114 Id.
115 Id.
116 Id.
119 See id.
120 See id.
The quality of patent licenses. The Seventh Circuit in *Waterloo* was no different.

**B. The Waterloo Case**

The Seventh Circuit is the only court to address whether settlement agreements for past infringement may constitute a patent license even though the patent has expired. In *Waterloo*, the Seventh Circuit held that “[a] settlement for past infringement entered into *after* [a patent expires is not] a license.” Additionally, the Seventh Circuit acknowledged that federal appellate courts are divided on whether a settlement agreement entered into *before* a patent expires constitutes a license. As will be discussed in greater detail below, the linchpin in Seventh Circuit’s reasoning boils down to their correct or incorrect understanding of what essentially a patent license constitutes.

*Waterloo* manufactures keyboard support devices. Haworth owned Patent No. 4,616,798 (the ‘798 patent) for a computer keyboard adjustable support, which attaches to the underside of a desk. In December 1992, Waterloo and Haworth entered into a licensing agreement to resolve an infringement claim Haworth brought against Waterloo. Although the parties executed the agreement in December 1992, it retroactively covered Waterloo’s past infringement that occurred before December 1992.

The agreement included a MFL clause wherein Haworth promised to automatically offer Waterloo a more favorable royalty rate if

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122 *Waterloo Furniture Components Ltd. v. Haworth, Inc.* (“*Waterloo II*”), 467 F. 3d 641, 647 (7th Cir. 2006) (emphasis added).
123 *Id.* at 647 n.1.
124 See Part III, *infra*.
125 *Id.* at 643.
126 *Id.* at 644.
127 *Id.*
Haworth licensed the ‘798 patent to a third party at a more favorable rate.129 The license agreement also included the express intention of the parties, namely that “Waterloo is treated no less favorably than direct competitors of Waterloo in regard to licensing of the ‘798 patent.” 130 Moreover, Haworth promised to provide written notice to Waterloo of any subsequent third party license agreement and its terms within thirty days following the license agreement’s execution.131 Michigan law governed the agreement.132

In 1997, a third party, SoftView, filed a declaratory judgment action against Haworth, arguing that SoftView was not infringing the ‘798 patent.133 Haworth filed a counterclaim in June 1998 that SoftView had infringed the ‘798 patent.134 On December 9, 2003, after five and half years of litigation, the parties reached an agreement in principle to settle the case.135 A formal settlement was executed on March 24, 2004.136 Meanwhile, the ‘798 patent expired on October 14, 2003.137

Waterloo learned about the settlement agreement and requested a copy from Haworth.138 Haworth responded that its agreement with SoftView was confidential.139 Waterloo filed a breach of contract claim in the Northern District of Illinois because it suspected that its licensor, Haworth, had entered into a settlement agreement that offered an infringing competitor more favorable royalty terms than the terms of Waterloo’s own license.140

129 *Waterloo II*, 467 F.3d at 644.
130 Id.
131 Id.
132 Id.
133 Id.
134 Id.
135 Id.
136 Id.
137 Id. at 643.
138 Id. at 644.
139 Id.
Haworth moved for summary judgment, and Waterloo served discovery requests, including a request to see the SoftView/Haworth settlement agreement. The district court halted discovery *sua sponte* and granted Haworth’s summary judgment motion after allowing the parties to submit briefs on the summary judgment motion.

The Seventh Circuit affirmed the district court’s judgment, holding that “a settlement for past infringement entered into after [a] patent’s expiration [does not] constitute a license.” The court reasoned that a license is only prospective in nature because a patent license grants a licensee a future right to make or use the patented invention.

In affirming the district court’s judgment, the Seventh Circuit went beyond what was necessary to adjudicate the case. The district court merely found that the license agreement between Waterloo and Haworth expired, and as a result, neither party had any obligations to each other at the time Haworth and SoftView entered into a settlement agreement.

The Seventh Circuit agreed with the district court’s interpretation of the Haworth/Waterloo agreement, at which point the adjudication could have ended. But then the court went on to hold that a settlement agreement may not be considered a license agreement after the patent expired (even if the Haworth/Waterloo agreement was still in force at the time Haworth and SoftView executed their settlement agreement) thus still negating Waterloo’s breach of contract claims.

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141 *Waterloo II*, 467 F.3d at 644.
142 *Waterloo I*, 402 F. Supp. 2d at 953. Although the district court held that the licensing agreement terminated with the patent’s expiration, *Waterloo I*, 402 F. Supp. 2d at 953, to which the Seventh Circuit agreed, *Waterloo II*, 467 F.3d at 645-46, whether the contract’s terms were correctly interpreted by the Federal Courts is beyond the scope of this Note.
143 *Waterloo II*, 467 F.3d at 647.
144 Id.
146 *Waterloo II*, 467 F.3d at 645-47.
147 Id.
III. THE SEVENTH CIRCUIT’S MISSTEPS

The Seventh Circuit made several missteps in the *Waterloo* case. First, it made incorrect assumptions about the nature of a patent license. The Seventh Circuit incorrectly defined what constitutes a patent law license, oddly relying in part on a 1951 edition of Black’s Law Dictionary. Moreover, because the court began with the wrong definition of a patent license, the court then incorrectly deemed that licenses may only be prospective in nature. The court then bolstered these assumptions by implying that an expired patent retains no value to the patentee, and thus a patent license may only be prospective in nature. In reality, the first misstep combines a series of flawed missteps.

Second, the court arguably ignored the Supreme Court’s analysis of the legal effects of a patent license and should have been more deferential to the Federal Circuit, the court Congress especially created to determine patent issues and bring uniformity to patent laws.

Third and finally, not only did the Seventh Circuit make wrong assumptions in its reasoning, but also it ignored the actual negotiation process and result of both a licensing agreement and a settlement agreement for patent infringement. Instead, the Seventh Circuit focused on the labels given to a document ending disputes negotiated under threat of litigation or actual litigation and not its substance.

A. Incorrect Assumptions Made About the Nature of Licenses

The first misstep actually involves a series of flawed missteps. The Seventh Circuit made three incorrect primary assumptions about

\[\text{References}\]

148 *Id.*
149 *Id.*
150 *Id.* at 641.
151 *See* Part IIIB, *infra.*
the nature of a patent license and patents in general. The court began with a wrong definition of a patent license, and then the court relied on that definition in deciding that patent licenses have only prospective qualities. Finally, the court bolstered the prospective quality of a patent license with the mistaken implication that an expired patent no longer has value. Before we detail the series of missteps and why they are flawed, however, this Note will detail the Seventh Circuit’s reasoning in *Waterloo*.

Broken down, the Seventh Circuit’s reasoning in *Waterloo* follows these steps. First, a patent license grants a licensee a permissive right to use the patented invention. Because a patent license grants the licensee a permissive, future right to use the patented invention, a patent license can only be prospective in nature. Furthermore, because a patent license is prospective in nature, a patentee may not license a patent after its expiration; indeed “there is nothing left for the patent holder to license.” Thus, a settlement entered into after a patent’s expiration is not a license.

Implied in this reasoning is that a settlement may be both prospective and retrospective in nature, i.e. a settlement agreement may release the infringer from past tortious acts in addition to any future ones that may occur. The Seventh Circuit also reinforced its decision by implying that an expired patent no longer has value or may be sued upon.

The mistakes made in the Seventh Circuit’s reasoning flow from their beginning assumptions, namely that a license grants permissive rights and is only prospective in nature. By starting on the wrong foot, the Seventh Circuit ended up in the wrong place.

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153 *Waterloo II*, 467 F.3d at 647.
154 *Id.*
155 *Id.* at 647-48.
156 *Id.* at 647.
157 *Id.*
158 *Id.* at 647-48.
159 *Id.* at 647.
160 *Id.*
161 *Id.*
1. A patent license is in essence a promise not to sue the licensee, not a grant to the licensee of rights to use the patented invention.

The Seventh Circuit started off on the wrong foot. First, the Seventh Circuit mistakenly understood a license as a “written authority granted by the owner of a patent to another person empowering the latter to make or use the patented article for a limited period or in a limited territory.”162 Surprisingly, and somewhat oddly, the Seventh Circuit relied on the fourth edition of Black’s Law Dictionary, published in 1951, as its quoted authority on what a patent license constitutes.163

Why seek a definition of a patent license from an out-of-date, albeit generally respected, legal dictionary instead of precedent from the Federal Circuit? Even better, why not consult Supreme Court precedent on the meaning of a license in the context of patent law? As will be shown, both types of precedential and persuasive authority were amply available for the Seventh Circuit’s choosing.164

Before reviewing various Federal Circuit definitions of a patent license, a short review of the rights conferred by a patent is in order. Only after a correct understanding of the property rights a patent grants a patentee can a proper understanding of the rights a patent license grants a licensee be reached.

By statute, a patent grants the patentee “the right to exclude others from making, using, selling, or offering to sell” the patented invention within the United States.165 However, the exact contours of this right were not always unmistakably comprehended because of ambiguities in the statute language prior to 1952.166 In the 1946 Patent Act for example,167 Congress established that a patent granted the patentee

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162 Id.
163 Id.
164 See Part IIIB, infra.
“the exclusive right to make, use, and vend the invention . . . throughout the United States.”\textsuperscript{168} This older version of the Patent Act may help explain the erroneous definition of a patent law license found in the 1951 fourth edition of Black’s Law Dictionary\textsuperscript{169} and subsequently relied upon by the Seventh Circuit.\textsuperscript{170} As will be discussed in greater detail below, the phrase “exclusive right to [use]” created an ambiguity in the understanding of the rights conferred by a patent.

After 1951, Congress enacted the current Patent Act in 1952, revising the statutory language describing the rights a patent confers.\textsuperscript{171} The current statute utilizes the same relevant language from the 1952 Patent Act with some minor additions.\textsuperscript{172} At present, a patent grants the patentee “the right to exclude others from making, using, offering for sale, or selling the invention.”\textsuperscript{173} In relevant part, Congress omitted the word “exclusive” from the 1942 Patent Act and added the words “exclude others from” in the 1952 Patent Act,\textsuperscript{174} clarifying the tenor of rights a patent grants a patentee to conform with existing law as interpreted by the Supreme Court.\textsuperscript{175}

Although the 1952 Patent Act revised the language describing the rights conferred by a patent to render the meaning clearer, the Supreme Court has concluded on numerous occasions that a patent

\begin{itemize}
\item \textsuperscript{168} 35 U.S.C. § 40 (1946).
\item \textsuperscript{169} \textsc{Black's Law Dictionary} 1068 (4th ed. 1951).
\item \textsuperscript{170} Waterloo Furniture Components Ltd. v. Haworth, Inc. ("Waterloo II"), 467 F. 3d 641, 647 (7th Cir. 2006).
\item \textsuperscript{171} 35 U.S.C. § 154 (1952) ("Every patent shall . . . grant to the patentee . . . the right to exclude others from making, using, or selling the invention throughout the United States").
\item \textsuperscript{172} 35 U.S.C. § 154(a)(1) (2000) (adding the phrase “offering for sale”).
\item \textsuperscript{174} \textit{Id.} Congress also added the phrase “offering for sale” sometime after the 1952 Patent Act.
\item \textsuperscript{175} S. Rep. No. 82-1979 (1952), as reprinted in 1952 U.S. C.C.A.N. 2394, 2417 ("The wording of the granting clause is changed to ‘the right to exclude others from making, using, or selling’, following language used by the Supreme Court, to render the meaning clearer") (emphasis added).
\end{itemize}
confers the right to exclude others from using the invention. At other times, the Court has declared that a patent grants the patentee the right to use the invention. The perhaps seemingly inconsistent views of the Court are explained below.

In *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, the Court extensively discussed the rights granted a patentee and the theories supporting those rights. The Court endorsed the view that a common law understanding of property already granted the patentee a right to use his invention, and that the only right Congress granted

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176 For the reader’s sake, the terms “use” or “using,” in the context of rights granted a patentee here and throughout this Note, include the statutory rights of making, using, selling and offering to sell when not explicitly listed.

177 Bloomer v. McQuewan, 55 U.S. 539, 549 (1853) (“The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is all [the patentee] obtains by the patent”); United Shoe Mach. Corp. v. United States, 258 U.S. 451, 463 (1922) (citing *Bloomer*, 55 U.S. 539) (“From an early day it has been held by this court that the franchise secured by a patent consists only in the right to exclude others from making, using, or vending the thing patented without the permission of the patentee”); see also United States v. Line Material Co., 333 U.S. 287, 316 (1948) (Douglas, J. concurring) (quoting U.S. CONST. art. I, § 8, Cl. 8) (“It is to be noted first that all that is secured to inventors is ‘the exclusive right’ to their inventions”); Kewanee Oil Co. v. Bicron Corp. et al., 416 U.S. 470, 480 (1974) (Patent laws promote progress of science and useful arts “by offering a right of exclusion for a limited period as an incentive to inventors”).

178 United States v. Univis Lens Co., 316 U.S. 241, 250 (1942) (“The full extent of the monopoly is the patentee's ‘exclusive right to make, use, and vend the invention or discovery’”).

179 210 U.S. 405 (1908).

180 *Id.* at 423-25.

181 *Id.* at 424-25 (“[The patentee] receives nothing from the law that he did not have before”); accord Bauer & Cie v. O’Donnell, 229 U.S. 1, 10 (1913) (“The right to make, use and sell an invented article is not derived from the patent law. This right existed before and without the passage of the law and was always the right of an inventor”); Crown Die & Tool Co. v. Nye Tool & Mach. Works, 261 U.S. 24, 34-35 (1923) (“[This] Court held that the Government did not confer on the patentee the right himself to make, use or vend his own invention, that such right was a right under the common law not arising under the federal patent laws and not within the grant of power to Congress to enact such laws”).
by statute was the exclusive right to use the invention,182 which the Court interpreted as the right to exclude others from using the invention.183

In summary, Congress never conferred by patent the statutory right to use the invention although the language used to describe the rights conferred by patent may have been misunderstood as conferring a “right to use” in the 1942 Patent Act and all previous versions of the Patent Act.184 Rather, Congress only intended the statutory language to


183 Cont’l Paper Bag Co., 210 U.S. at 423-25 (“[T]he only effect of the patent is to restrain others from manufacturing and using that which he has invented”); accord Bauer, 229 U.S. at 10 (The Patent Act consequently, “secured to the inventor the exclusive right . . . to prevent others from [using the patented invention] without the consent of the patentee”); Crown Die, 261 U.S. at 34-35 (“[This] Court further held that in its essence all that the Government conferred by the patent was the right to exclude others from making, using or vending his invention”).

184 The previous Patent Acts used some form of the phrase “right to use the invention,” albeit with different wording over the years. The Supreme Court summarized the historical changes in the language used to describe the rights conferred by patent in the relevant statutes for the Patent Acts of 1790, 1793, 1736, and 1870 as follows:

The protection given to inventors and authors in the United States originated in the Constitution, § 8 of Art. I of which authorizes the Congress “to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” This protection, so far as inventors are concerned, has been conferred by an act of Congress passed April 10, 1790, and subsequent acts and amendments. The act of 1790, 1 Stat. 109, c. 7, granted “the sole and exclusive right and liberty of making, constructing, using and vending to others to be used, the said invention or discovery.” In 1793 (Feb. 21, 1793, 1 Stat. 318, c. 11) the word “full” was substituted for the word “sole,” and in 1836 (July 4, 1836, 5 Stat. 117, § 5, c. 357) the word “constructing” was omitted. This legislation culminated in § 4884 of the Revised Statutes, the part with which we are dealing being practically identical with the act of July 8, 1870, 16 Stat. 198, § 22, c. 230. It provides that every patent shall contain “a grant to the patentee, his heirs and assigns,
grant the property right to exclude others from using the invention.\(^{185}\)

In other words, even though the statutory language in the Patent Acts before 1952 used the phrase “exclusive right to use” in describing the rights conferred by patent, Supreme Court cases interpreted that phrase to mean that a patent only grants the patentee the right to exclude others from using the patented invention.\(^{186}\) To be sure, all forms of intellectual property share the essential right to exclude others from using, without permission, the copyright, patent, trademark, or trade secret.\(^{187}\)

Despite the statutory definition of what rights a patent grants a patentee, it is still common to perceive a patent’s grant as a de facto monopoly for the patentee to make, use, and sell the invention, and with it the ability to license those same rights to a licensee.\(^{188}\) Common experience with tangible personal or real property may make it difficult for many people to conceive of a right to exclude without simultaneously having the right to use tangible property.\(^{189}\) However, because intellectual property is intangible, the concept of having only the right to exclude and not the right to use becomes troublesome for

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\(^{185}\) See Richardson v. Suzuki, 868 F2d. 1226, 1247 (Fed. Cir. 1989) ("The right to exclude recognized in a patent is but the essence of the concept of property").

\(^{186}\) See, e.g., Special Equip. Co. v. Coe, 324 U.S. 370, 378 (1945) ("The patent grant is not of a right to the patentee to use the invention, for that he already possesses. It is a grant of the right to exclude others from using it. As the statute, R. S. § 4884, provides, the grant is of the “exclusive right to make, use, and vend” the invention").

\(^{187}\) Kenneth L. Port, Jay Dratler, Jr., Faye M. Hammersley, Terence P. McElwee, Charles R. McManis & Barbara A. Wrigley, LICENSING INTELLECTUAL PROPERTY IN THE INFORMATION AGE 6 (2d ed. 2005) ("The direct impact of intellectual property is entirely negative: it prevents those who do not own it from doing things they otherwise might lawfully and productively do, normally without invading any one’s tangible property").

\(^{188}\) See Part IA, supra.

\(^{189}\) Kenneth L. Port, Jay Dratler, Jr., Faye M. Hammersley, Terence P. McElwee, Charles R. McManis & Barbara A. Wrigley, LICENSING INTELLECTUAL PROPERTY IN THE INFORMATION AGE 5-6 (2d ed. 2005).
many. An example of why this distinction is important will help illuminate the concept, and explain how the distinction affects licensing agreements.

Suppose inventor Jon holds a patent for a widget with elements A+B+C and inventor Kate holds a patent for a widget with elements A+B. Despite Jon’s patent, Kate may still exclude Jon from making, using, or selling his widget with elements A+B+C, because it would infringe Kate’s patent for a widget with elements A+B. Kate’s patent claim would read on Jon’s widget. Inventor Kate owns a “dominating” patent.

The following drawing helps to visualize this situation where Jon’s patent for a widget with elements A+B+C is the inner circle, and Kate’s patent for a widget with elements A+B is the outer circle encompassing Jon’s inner circle. The drawing represents how Kate’s “dominate” patent prevents Jon from freely using his invention; Kate has the right to exclude Jon from using any widget that includes elements A+B. Even though the law grants Jon the right to exclude others from using his invention, he himself does not have the right to use his invention without Kate’s consent.

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190 “Read on” is a term of art in patent litigation. See 8 Donald S. Chisum, CHISUM ON PATENTS Glossary (2001) (Explaining meaning of the term “reads on” as “a claim ‘reads on’ or covers products or processes that contain all of the elements and limitations of the claim”).

191 See BLACK’S LAW DICTIONARY 1156 (8th ed. 2004) on blocking patent, dominating patent, and fencing patent.
A similar situation, often referred to as a “blocking patent,” would arise if Jon instead held a patent for a widget with elements A+C, yet Jon makes, uses, and sells a widget with elements A+B+C. In that case, both Jon and Kate could prevent each other from making, using, or selling a widget with elements A+B+C. This is because Jon’s patent claim including elements A+B and Kate’s patent claim including elements A+C would read on the widget with elements A+B+C, each patent “blocking” the other’s use of the widget.

The following drawing helps to visualize this situation, where Jon’s patent for a widget with elements A+C is the right circle, and Kate’s patent for a widget with elements A+B is the left circle. The overlapping area of the two circles represents the overlapping patent rights that Kate and Jon share. The drawing represents how Kate and Jon’s patents “block” each other from freely using their inventions without the other’s consent.

Kate has the right to exclude Jon from using any widget that includes elements A+B and Jon has the right to exclude Kate from using any widget that includes elements A+C. Even though the law grants Jon and Kate the right to exclude others from using their respective inventions, neither Jon nor Kate has the right to use their invention without the other’s consent. Cross-licensing the patents would permit both Jon and Kate to make, use, and sell the widget A+B+C.

192 Id.
193 Id.
194 Id.
The previous hypotheticals are not mere mental gymnastics to illuminate theories of patent law, but they occur in actual court cases, and affect their outcomes. Why is the distinction between the right to use and the right to exclude important? It is important because understanding what rights a patent grants a patentee shapes what rights a licensee receives from the patentee, and thus what a patent license constitutes.

Notwithstanding the actual language of a license agreement, a patent license is not a grant of rights to the licensee to use the invention; rather, a patent license is an agreement that the licensor will not sue the licensee, so long as neither party breaches the agreement. According to the Supreme Court, a patent license "amounts to no more than 'a mere waiver of the right to sue.'" The federal courts of appeal have also declared that a patent license is nothing more than a promise not to sue. In fact, a patentee has no other obligations to the licensee, even to the point that a patentee does not have to sue other infringers of the licensed patent. Neither

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195 United States v. Line Material Co., 333 U.S. 287, 297 (1948) ("These patents in separate hands produced a deadlock. Lemmon by his basic patent ‘blocked’ Schultz’s improvement. Cross-licenses furnished appellees a solution").
196 U.S. Philips Corp. v. ITC, 424 F.3d 1179, 1189 (Fed. Cir. 2005).
197 Gen. Talking Pictures v. W. Elec. Co., 304 U.S. 175, 181 (1938) (quoting De Forest Radio Tel. Co. v. United States, 273 U.S. 236, 242 (1927)). It should be noted that an exclusive licensee receives more in addition to the promise not to sue, namely the ability to sue others for infringement in some circumstances. See Part IC, supra.
198 See W. Elec. Co. v. Pacent Reproducer Corp., 42 F.2d 116, 118 (2d Cir. 1930) (noting that “a license grants to the licensee merely a privilege that protects him from a claim of infringement by the owner of the patent”); Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1552 (Fed. Cir. 1995) (en banc) (noting that a licensee with a bare license “has received only the patentee’s promise that [the licensee] will not be sued for infringement”); U.S. Philips Corp., 424 F.3d at 1189 (noting that “a nonexclusive patent license is simply a promise not to sue for infringement”).
199 Again, this is for a “bare licensee”, which is a minimum received by all licensees, though exclusive licensees receive more rights. See Part IC, supra.
200 W. Elec. Co., 42 F.2d at 118 (noting that a patentee may freely enter licensing agreements with others or even tolerate infringers, and in neither case violate the rights of the patent licensee, though such actions may cause the licensee...
does the licensee have any other obligations to the patentee outside the
terms of the agreement.201

Why have courts declared that a patent license is nothing more
than a promise not to sue or a mere waiver of a right to sue? Recall
that the patentee does not have the right to use the patented invention;
rather the patentee has the right to exclude others from making, using,
selling, or offering to sell the invention.202 Therefore, if the patentee
does not have the right to use the invention, then how can the patentee
grant the licensee a right to use the invention when the patentee does
not have that right themselves?

The Federal Circuit acknowledged this absurdity. Based on the
exclusionary rights granted a patentee, the Federal Circuit reasoned as
follows about the actual nature of a patent license:

Even if [a patent license is] couched in terms of
“licensee is given the right to make, use, or sell X,” the
agreement cannot convey that absolute right because
not even the patentee of X is given that right. His right
is merely one to exclude others from making, using or
selling X, 35 U.S.C. § 154. Indeed, the patentee of X
and his licensee, when making, using, or selling X, can
be subject to suit under other patents.203

Because a patentee cannot grant a right to that which it does not have,
the Federal Circuit held that “[a]s a threshold matter, a patent license

201 U.S. Philips Corp., 424 F.3d at 1189 (noting that granting a license “does
not obligate the licensee to do anything; it simply provides the licensee with a
guarantee that it will not be sued for engaging in conduct that would infringe the
patent in question”).
203 Spindelfabrik Suessen-Schurr Stahlecker & Grill GmbH v. Schubert &
Salzer Maschinenfabrik Aktiengesellschaft, 829 F.2d 1075, 1081 (Fed. Cir. 1987).
agreement is in essence nothing more than a promise by the licensor not to sue the licensee” for patent infringement.204

With this understanding, the Federal Circuit recently declared that a license is equivalent to a covenant not to sue.205 Even some commentators note the implications of viewing a patent license agreement as a covenant not to sue on other areas of the law,206 such as the assignment of patent licenses in a bankruptcy proceeding.207

Perhaps the language of the pre-1952 statutes describing the rights granted a patentee explains the incorrect definition of a patent license found in the 1951 fourth edition of Black’s Law Dictionary.208 Another potential reason for the inaccurate definition may be that Congress had yet to centralize all appeals of patent cases into a single court, the Court of Appeals for the Federal Circuit. Congress first created the

204 Id.; accord Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1552 (Fed. Cir. 1995) (“If the party has not received an [exclusive license] i.e., the right to exclude others from making, using, or selling the patented invention, the party has a ‘bare license,’ and has received only the patentee’s promise that that party will not be sued for infringement”).


206 Michelle Morgan Harner, Carl E. Black, and Eric R. Goodman, Debtors Beware: The Expanding Universe of Non-Assumable/Non-Assignable Contracts in Bankruptcy, 3 AM. BANKR. INST. L. REV. 187, 211 (2005) (“[L]icense agreements are covenants not to sue i.e., the licensor agrees not to sue the licensee for patent infringement if the licensee uses the patented invention and performs (such as by paying royalties) in accordance with the terms of the license agreement”).

207 Id. at 212.

208 BLACK’S LAW DICTIONARY 1068 (4th ed. 1951).

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Court of Appeals for the Federal Circuit in 1982\textsuperscript{209} for the purpose of unifying patent law\textsuperscript{210} among other things.\textsuperscript{211}

Nevertheless, none of these possible reasons for an erroneous definition of a patent license excuses the Seventh Circuit for relying on the 1951 definition found in Black’s Law Dictionary when the Supreme Court and the Federal Circuit have explicated a correct definition of a patent license.

2. A license may be retroactive.

In deciding the \textit{Waterloo} case, the Seventh Circuit also relied on the notion that a license has only prospective qualities.\textsuperscript{212} To reinforce that notion, the Seventh Circuit incorrectly defined a patent license as a grant to the licensee of the right to use the patented invention, which can only be forward looking.\textsuperscript{213} However, patent licenses may have both prospective and retrospective qualities, in part because a patent license is in essence a promise not to sue.\textsuperscript{214} Other types of intellectual property also recognize retroactive licensing agreements.\textsuperscript{215}


\textsuperscript{210} Holmes Group, Inc. v. Vornado Air Circulation Sys., 535 U.S. 826, 838 (2002) (noting that the Federal Circuit “was created, in part, to promote uniformity in the development [patent] law”).

\textsuperscript{211} See Rochelle Cooper Dreyfuss, \textit{The Federal Circuit: A Case Study in Specialized Courts}, 64 N.Y.U. L. Rew. 1, 2-4 (1989) (noting administrative efficiency and reduced forum shopping as some other reasons).

\textsuperscript{212} Waterloo Furniture Components Ltd. v. Haworth, Inc., 467 F. 3d 641, 647 (7th Cir. 2006).

\textsuperscript{213} Id.

\textsuperscript{214} See Part IIIA1, \textit{supra}.

The Federal Circuit has acknowledged on various occasions both implicitly\(^{216}\) and explicitly\(^{217}\) that a patent license may be retroactive. Additionally, the Sixth Circuit explicitly held that “a release [from past infringement] can, in certain circumstances, have the effect of and be construed as a license.”\(^ {218}\) Various district courts have also recognized the retroactive nature of patent licenses in the form of a settlement for past infringement.\(^ {219}\)

Moreover, most patent infringement cases settle\(^ {220}\) with the parties entering some form of licensing agreement.\(^ {221}\) Settlement in a general

\(^{216}\) See Intel Corp. v. ULSI Sys. Tech., 995 F.2d 1566, 1567 (Fed. Cir. 1993) (noting that Intel and HP entered into a cross-licensing agreement granting each other “an ‘irrevocable, retroactive, nonexclusive, world-wide, royalty-free license’ under all patents and patent applications covered by the agreement”); Enzo APA & Son v. Geapag A.G., 134 F.3d 1090, 1092 (Fed. Cir. 1998) (“By its terms, the Spidem-Geapag License is retroactive, effective as of December 4, 1992, thus predating the first filed action”); Ethicon, Inc. v. United States Surgical Corp., 135 F.3d 1456, 1467 (Fed. Cir. 1998) (recognizing that a patent license may cover past infringement, although absent an agreement between co-owners, a license granted by one co-owner and not the others will only operate prospectively).

\(^{217}\) Studiengesellschaft Kohle, m.b.H. v. Hercules, Inc., 105 F.3d 629, 634 (Fed. Cir. 1997) (ruling that a MFL licensee was entitled to a retroactive license).


\(^{221}\) Id. at 275.
sense may occur before actual litigation begins or anytime thereafter.\textsuperscript{222} Because the parties settle usually after infringement has allegedly occurred, thus precipitating the lawsuit or the threat of litigation, licensing agreements typically have a retroactive effective date, and thus embrace both prospective and retrospective qualities.\textsuperscript{223}

To illustrate this point further, consider the first variation of the previous “Kate and Jon” hypothetical where Jon makes a widget having elements A+B+C, which infringes Kate’s patent for a widget having elements A+B. Kate has yet to file a lawsuit, but both agree that Jon has been infringing Kate’s patent for the past 3 years and that her patent would withstand a validity challenge. Because of the threat of litigation, Jon and Kate, enter into a licensing agreement a week before Kate’s patent expires although negotiations began just under a year ago.

Jon agrees to pay a lump-sum royalty to Kate within two months of the execution date of the agreement. The lump-sum royalty covers Jon’s past infringing acts as well as his future use of the invention for the remaining week left on the life of the patent. Although the licensing agreement contains mostly retrospective features and only marginally prospective ones, it is nevertheless a license: Kate has promised not to sue Jon for past and future infringement in exchange for a lump-sum royalty payment. Courts consider lump-sum royalties

\textsuperscript{222} Id. at 256-57; see also Carl Shapiro, \textit{Antitrust Limits to Patent Settlements}, 34 RAND J. ECON. 391, 392 (2003) (“I do not distinguish between settlements that take place after patent litigation commences and those that take place before the filing of a patent lawsuit. Both types of settlements take place in the shadow of an ultimate court ruling on patent validity and/or infringement”).

\textsuperscript{223} In fact, the licensing agreement between Haworth and Waterloo was executed in December 1992 but had an effective date of October 1, 1992. Waterloo Furniture Components v. Haworth, Inc., 402 F. Supp. 2d 950, 952 (N.D. Ill 2005). Thus, Waterloo paid Haworth a certain monetary amount to cover past infringing acts that occurred prior to the execution of the licensing agreement and any future ones up to the expiration date of the patent, a retroactive and prospective license. \textit{See, e.g.}, Shatterproof Glass Corp. v. Libbey-Owens-Ford Co., 482 F.2d 317, 318 n.2 (1973) (Shatterproof began negotiations in 1952, which concluded in 1955 with a license agreement having an effective date of Jan. 1, 1954); \textit{id.} at 319 (In 1962, Libbey-Owens-Ford executed a license agreement with Ford having an effective date of Jan. 1, 1961).
the same as continuing royalty payments in that they fulfill the licensee’s obligation to pay the patentee for the license.\textsuperscript{224}

Consider the legal effects, if any, on the outcome when the facts of the hypothetical are altered. In this variation, the negotiation process took longer and an agreement was reached a week after the patent expired, but all the other terms were the same. Now the licensing agreement contains only retrospective features. Despite the patent’s expiration, the agreement is still a patent license: Kate has promised not to sue Jon for past infringement in exchange for a lump-sum royalty fee. A patentee’s authority to grant a retroactive patent license is what enables the settlement of a patent infringement suit and is indistinguishable from a settlement.\textsuperscript{225}

3. Expired patents retain some value to the patentee.

The Seventh Circuit also incorrectly implied that once a patent expires, the patentee can no longer enforce his patent rights based on the expired patent, bolstering its claim that a license has only prospective qualities.\textsuperscript{226} While the patentee’s power to exclude others no longer exists after a patent’s expiration,\textsuperscript{227} “a patent does have

\textsuperscript{224} Hazeltine Corp. v. Zenith Radio Corp., 100 F.2d 10, 16 (7th Cir. 1938) ("'Royalty,' when used in connection with a license under a patent, means the compensation paid by the licensee to the licensor for the use of the licensor's patented invention"); see Studiengesellschaft Kohle, m.b.H. v. Hercules, Inc., 105 F.3d 629, 633 (Fed. Cir. 1997) ("The ordinary meaning of the term 'paying licensee' is one who gives money for a license . . . we see no distinction between one who makes an up-front, lump-sum payment and one who makes continuing royalty payments. Indeed, such a distinction would be doubly doubtful because a 'paid-up' license presumably includes potential future royalty payments discounted to their net present value").

\textsuperscript{225} See De Forest Radio Tel. Co. v. United States, 273 U.S. 236, 241-42, (1927) (settlement and license have the same legal effect); Shatterproof Glass Corp. v. Libbey-Owens-Ford Co., 482 F.2d 317, 320 (6th Cir. 1973) (settlement may be deemed equivalent to a retroactive license).

\textsuperscript{226} Waterloo Furniture Components Ltd. v. Haworth, Inc., 467 F. 3d 641, 647-48 (7th Cir. 2006).

\textsuperscript{227} 35 U.S.C § 154(a)(2) (2006).
value beyond its expiration date.”228 By statute, a patentee may still sue an infringer for past infringement committed during the life of the patent.229

A patentee may still recover standard remedies when suing for past infringement of an expired patent. For example, a patentee whose right to exclude expired with the patent may yet be able to obtain post-patent-expiration injunctions.230 A patentee may want to seek an injunction after a patent has expired for two basic reasons. First, a patentee may request the injunctions to destroy infringing items made during the patent’s lifetime or “articles made from an infringing machine or process.”231 Another reason for a post-expiration injunction is to enjoin the infringer “from making the patented item for the amount of time it would take for the infringer to recreate the invention after the patent expired.”232

Injunctions are not the only remedy available to a patentee after a patent expires. A patentee may recover money damages as well.233 Although sometimes misunderstood as a statute of limitations,234 § 286 caps the amount of damages a patentee may recover from an infringer for any infringement committed more than six years prior to filing the lawsuit.235 In other words, “one starts from the filing of a [patent-infringement lawsuit] and counts backward [six years] to

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228 In re Morgan, 990 F.2d 1230, 1232 (Fed. Cir. 1993).
229 35 U.S.C. § 286 (2000); accord In re Morgan, 990 F.2d at 1232. (tersely noting that “a patent may be sued on after it expires”).
231 Id. at 106-07.
232 Id. (This is because if the infringer had respected the patentee’s rights, they would not be able to recreate the invention until after the patent expires. In other words, by infringing the patent, the infringer received an unlawful head start on recreating the invention for lawful use after patent expiration. A post-expiration injunction would deprive the infringer of that head start).
235 35 U.S.C. § 286 (2000) (“Except as otherwise provided by law, no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action”).
determine the date before which [the patentee may no longer recover damages].\textsuperscript{236}

A patentee may therefore still derive value from an expired patent either by commencing a law suit or seeking a licensing agreement with the alleged infringer up to six years after the patent expired.\textsuperscript{237} Remember, this is not an unlawful extension of the patent term because the patentee may not recover damages for use of the patented invention after the patent expires.\textsuperscript{238} Rather, if a patentee first discovers after the patent expired that an infringer committed infringing acts before the patent’s expiration, the patentee may recover those damages.

Logically then, a patentee can resolve any patent dispute with an infringer after the patent has expired by either entering a licensing or settlement agreement covering the past infringing acts. The infringer’s ability to enter into retroactive agreements confirms the notion that settlement agreements may be considered a licensing agreement, even if the patent has expired, and especially if a MFL clause is implicated.

Thus, the Seventh Circuit erroneously concluded that a patent license has only prospective qualities. In reality, the legal effect of a license, a promise not to sue, may cover both past and future infringing acts in exchange for an agreed upon consideration.

\textbf{B. Ignoring De Forest for the Trees and Disregarding the Federal Circuit}

In the second misstep, the court arguably ignored the Supreme Court’s analysis of the legal effects of a patent license and should have been more deferential to the Federal Circuit, the court Congress especially created to determine patent issues and bring uniformity to patent laws.\textsuperscript{239}

\textsuperscript{236} \textit{Standard Oil Co.}, 754 F.2d at 348.
\textsuperscript{237} See, e.g., \textit{In re Morgan}, 990 F.2d 1230, 1232 (Fed. Cir. 1993).
\textsuperscript{239} \textit{Holmes Group, Inc. v. Vornado Air Circulation Sys.}, 535 U.S. 826, 838 (2002) (noting that the Federal Circuit “was created, in part, to promote uniformity in the development [patent] law”).
The Seventh Circuit should have looked to the Supreme Court and the Federal Circuit for the correct definition of a patent license. The Supreme Court has held on multiple occasions that a license in the context of patent law “amounts to no more than ‘a mere waiver of the right to sue.’” In *De Forest Radio Telephone Co. v United States*, the pre-eminent Supreme Court case explaining the meaning of a patent license, the American Telephone Company released the United States and “all manufactures acting under its orders” from any infringement claims stemming from the United States’ use and manufacture of a patented invention for use in World War I.

The *De Forest Radio Telephone Company*, the holder of patents for the invention, later sued the United States for infringement. However, *De Forest* granted certain rights in the patent to Western Electric Company, who subsequently conveyed the rights to the American Telephone Company. The agreement included the right of *De Forest* and Western Electric to sue others for any of the patents “within the fields in which each respectively possessed rights,” and to license to the United States use of the patented technology. A license would serve as a complete defense to claims of patent infringement by either company.

In holding that American Telephone Company’s actions created an implied license with the United States Government, the Court also explicated the nature of a patent license. The Court noted, “No formal granting of a license is necessary in order to give it effect.”

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242 *Id.* at 239-40.
243 *Id.* at 237.
244 *Id.* at 238.
245 *Id.*
246 *Id.* at 240.
247 *Id.*
248 *Id.* at 242.
249 *Id.* at 241.
Moreover, the court approvingly quoted an earlier Supreme Court case that declared a license is “a mere waiver of the right to sue.”

The Federal Circuit stands with the Supreme Court in its case law, when explicating the nature of a patent license. Although Federal Circuit decisions do not bind the Seventh Circuit, even in matters of patent law, the Seventh Circuit should give deference to the Federal Circuit in matters implicating patent law, similar to the manner in which the Federal Circuit defers to its sister appellate courts when deciding matters not implicating patent law, such as procedural issues and substantive issues not involving patent law.

One commentator argued for deference to the Federal Circuit while recognizing that the Federal Circuit’s decisions do not bind regional appellate and state courts, in this manner:

The most obvious law for the regional appellate courts and state courts to apply to patent issues is that of the Federal Circuit. However, federal appellate courts are

250 Id. at 242 (quoting Henry v. Dick Co. 224 U.S. 1, 24 (1912)).
251 See generally Part IIIA1, supra.
252 Kohler Co. v. Moen Inc., 12 F.3d 632, 644 (7th Cir. 1993) (Cudahy, J. dissenting).
254 But see Larry D. Thompson, Jr., Adrift on a Sea of Uncertainty: Preserving Uniformity in Patent Law Post-Vornado Through Defe rence to the Federal Circuit, 92 GEO. L.J. 523, 526 (“Generally, however, federal courts of appeals follow what can be called the ‘rule of no deference,’ which allows courts to treat the decisions of coordinate federal courts as persuasive, but prohibits deference to them”).
255 One commentator summarized the Federal Circuit’s deference as follows: [The Federal Circuit] applies regional circuit law to procedural issues that are not themselves substantive patent law issues so long as they do not (1) pertain to patent law, (2) bear an essential relationship to matters committed to [the court’s] exclusive control by statute, or (3) clearly implicate the jurisprudential responsibilities of [the court] in a field within its exclusive jurisdiction.

not bound by Federal Circuit law and do not have sovereignty-based reasons for following it, as they do with state law. Therefore, the basis for their deference to Federal Circuit law should come from three places. First, it generally is more efficient for regional circuits to follow the Federal Circuit so the appellate courts do not need to develop new law. Second, the courts should respect the congressional purpose of creating a uniform body of patent law. Finally and most tenuously, the regional circuits should honor Federal Circuit law to promote comity among the circuit courts, which the Federal Circuit has, at least in principle, supported. Perhaps such respect for the Federal Circuit law will generate a reciprocal respect in the Federal Circuit for regional circuit law, transforming its purported adherence to regional circuit law on nonpatent issues into actual adherence.256

However, what about issues before the courts that involve matters of both patent law and other areas of law, or issues that merely implicate patent law? For instance, some decisions that may have a “substantial effect on patent law” involve antitrust, contracts, copyrights, federal business law tort claims such as trade dress infringement, patent licensing disputes, and state law business disparagement claims.257 In those cases that implicate patent law or involve matters of patent law, other regional appellate and state courts should defer to the Federal Circuit in order to promote the congressional intent of a uniform body of patent law.258

Other regional appellate courts have understood the need for a uniform body of patent law, and have deferred to the Federal Circuit precedent when deciding issues implicating patent law. For example, the Ninth Circuit, in a bankruptcy proceeding, upheld the district court’s decision, preventing the assignability of a patent license by the debtor.\textsuperscript{259} In so doing, the Ninth Circuit looked to federal patent law, as promulgated by the Federal Circuit court, to govern its decision, even though federal patent law may have conflicted with California state law.\textsuperscript{260}

The court justified their conclusion by emphasizing the importance of federal patent policy and a uniform rule of “modern federal decision” regarding the non-assignability of nonexclusive patent licenses.\textsuperscript{261} Additionally, the Ninth Circuit cited Seventh Circuit precedent that also held that federal patent law governed the assignability of a patent license,\textsuperscript{262} which means the Seventh Circuit not only understands this principle but even applied it and incorporated it into its own case law. Notably, the Ninth Circuit also looked to the Supreme Court’s \textit{De Forest} decision for a definition of a patent license,\textsuperscript{263} which definition the Federal Circuit case law supports.\textsuperscript{264}

In order to follow the Congressional directive for a uniform body of patent law, the Seventh Circuit should have followed the Ninth Circuit’s example and looked to the Supreme Court and the Federal Circuit to inform its definition of a patent license, a key part of their the construction of patent law is undoubtedly important’’\textsuperscript{265}; Cole, \textit{supra} note 257, at 725-26.

\textsuperscript{259} In re CFLC, Inc., 89 F.3d 673, 680 (9th Cir. 1996)
\textsuperscript{260} \textit{Id.} at 677-79.
\textsuperscript{261} \textit{Id.} at 679-80.
\textsuperscript{262} \textit{Id.} at 677-78 (citing Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972) (“The question of assignability of a patent license is a specific policy of federal patent law dealing with federal patent law. Therefore, we hold federal law applies to the question of the assignability of the patent license in question’’)).
\textsuperscript{263} \textit{Id.} at 677 (noting that a patent license is a ‘‘mere waiver of the right to sue’’ the licensee for infringement’) (quoting \textit{De Forest Radio Tel. Co. v. United States}, 273 U.S. 236, 242 (1927)).
\textsuperscript{264} See Part IIIA1, \textit{supra}.
reasoning to hold that a settlement agreement may never be a patent license.265

C. The calculations for a payment of royalties in a license agreement and a settlement agreement are substantially the same.

Third and finally, the Seventh Circuit ignored the actual negotiation process and legal effects of both a licensing agreement and a settlement agreement for patent infringement. Instead, the Seventh Circuit focused on the label of an agreement ending disputes negotiated under threat of litigation or actual litigation and not its substance.266

The Seventh Circuit overlooked the fact that a calculation of royalty rates267 for a licensing agreement and a settlement agreement mimic each other, thus bolstering the notion that settlement agreements perform substantially the same function as licensing agreements—in other words, a means for the parties to enter some form of a covenant not to sue in exchange for an agreed upon consideration.268

265 Waterloo Furniture Components Ltd. v. Haworth, Inc., 467 F. 3d 641, 647 (7th Cir. 2006).
266 Id. at 647-48.
267 Royalty as used here means any compensation paid to the licensor for a license, See Hazeltine Corp. v. Zenith Radio Corp., 100 F.2d 10, 16.(7th Cir. 1938) (“Royalty’ when used in connection with a license under a patent, means the compensation paid by the licensee to the licensor for the use of the licensor’s patented invention”).
268 See, e.g., Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings, 370 F.3d 1354, 1367 (Fed. Cir. 2004) (“[A] license is, in essence, a licensor’s covenant not to sue the licensee”); see also John C. Phillips, Note, Sui Generis Intellectual Property Protection for Computer Software, 60 GEO. WASH. L. REV. 997, 1041 n.212 (1992) (“A ‘license’ in the patent law context may be defined as a covenant not to sue for infringement in exchange for a royalty”). For a settlement as a covenant not to sue, see, e.g., Microchip Tech. Inc. v. Chamberlain Group, 441 F.3d 936, 942 (Fed. Cir. 2006) (noting that the parties’ settlement agreement was a covenant not to sue).
Because damages for patent infringement are calculated using lost profits or a reasonable royalty rate, and sometimes both, settlement amounts will, in large part, be based on either lost profits or a reasonable royalty rate. Thus, a settlement based on the reasonable royalty rate mimics the negotiation process the parties would have had if they instead entered into a licensing agreement.

When a court determines damages for past patent infringement employing a reasonable royalty calculation, it conjures up what royalty rate the parties hypothetically would have agreed to if they sat across the bargaining table on the day infringement began and had instead entered into a license agreement. In other words, if the parties had negotiated a license agreement on the day infringement began, the royalty rate the patentee would have charged the infringer for use of the invention is the same rate calculation that the court would use to assess the amount of damages the infringer owes the patentee.

The actions of the parties in negotiating a royalty rate for a license or a settlement agreement has the same legal effect, as the Supreme

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269 35 U.S.C. § 286 (2000); State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573, 1577 (Fed. Cir. 1989) (“The [damages] award may be split between lost profits as actual damages to the extent they are proven and a reasonable royalty for the remainder”).

270 See, e.g., Shapiro, supra note 222, at 392 (“Virtually every patent license can be viewed as a settlement of a patent dispute: the royalty rate presumably reflects the two parties’ strengths or weaknesses in patent litigation in conjunction with the licensee’s ability to invent around the patent”).

271 Kesan & Ball, supra note 220, at 254 (“Obviously, an out-of-court negotiation of a licensing agreement is similar to a negotiation of a settlement agreement once the case has been filed”); see also Shapiro, supra note 222, at 392 (“I do not distinguish between settlements that take place after patent litigation commences and those that take place before the filing of a patent lawsuit. Both types of settlements take place in the shadow of an ultimate court ruling on patent validity and/or infringement”).

272 Hanson v. Alpine Valley Ski Area, 718 F.2d 1075, 1078 (Fed. Cir. 1983) (“Hypothetical negotiations should be the result of supposed meeting between the patentee and the infringer at the time infringement began”); accord Unisplay S.a. v. Am. Elec. Sign Co., Inc., 69 F.3d 512, 518 (Fed. Cir. 1995) (“The key element in setting a reasonably royalty is the need to return to the date when the infringement began”).
Court’s De Forest case supports.\footnote{See, e.g., De Forest Radio Tel. Co. v. United States, 273 U.S. 236, 241-42 (1927) (release and license have the same legal effect).} As a commentator put it, “royalties simply force the patentee to issue a retroactive license.”\footnote{Mohamed Yusuf M. Mohamed, Note, Unjust Enrichment for Patent Infringement: A Novel Idea, 4 J. INTELL. PROP. L. 123, 127 (1997).} Recognizing that similar tactics, processes, and legal outcomes accompany license agreement and settlement agreement negotiations led one firm to advertise their skills in “Adversarial Patent Licensing Negotiations,” concluding that “adversarial patent licensing negotiations had many of the same qualities as settlement of pending litigation.”\footnote{See “Adversarial Patent Licensing Negotiations” found at http://www.mofo.com/practice/practice/intellectualproperty/adversarial/overview.html (last visited April 16, 2007).}

Because a settlement agreement and a license agreement are largely based on the same royalty rate calculations and result in the same legal effect, a settlement agreement should be considered a license.

IV. EFFECTS OF THE SEVENTH CIRCUIT’S RULING

Legal issues surrounding intellectual property continue to increase in importance and national attention,\footnote{Jess Bravin, Battleground Shifts to High Court, WALL ST. J., Nov. 28, 2006, at A1.} especially as intellectual property becomes an increasingly larger portion of a company’s assets, and by extension a nation’s economy.\footnote{A. Tracy Gomes and Thomas George, Patent Value Continues to Soar in 2005, INTELLECTUAL ASSET MANAGEMENT, February/March 2006, at 34.} For example, some commentators note patent law’s newfound stature, due to the Supreme Court’s recent zeal to grant writs of certiorari in patent cases decided at the Court of Appeals for the Federal Circuit.\footnote{Harold C. Wegner, Top Ten Supreme Court Patent Cases, Mar. 9, 2006, p. 3-4; available at http://patentlaw.typepad.com/patent/SupremeCourtMARCH9.pdf (last visited Apr. 16, 2007).} In 2006 alone, the
high court has granted certiorari in six patent cases, “more cases in a single year than any [year] since the 1960s.”

Compare that number to the period just after the mid twentieth century: “[During] the next three decades, the Court averaged barely one patent decision per year, or less than one-third its average from the first half of the [twentieth] century.” Consider the high court’s patent caseload even more recently. Since the 1982 inception of the Court of Appeals for the Federal Circuit, during “the twelve terms between 1983 and 1994 (inclusive), the Court heard five patent cases.” No wonder a commentator declared in 2001 “[t]he Supreme Court has rendered itself well nigh invisible in modern substantive patent law.” The Supreme Court has reasserted its influence in patent law, given the recent uptick in patent cases heard by the Court, as evidenced in the previous five terms and the current term.

280 John R. Duffy, *The Festo Decision and the Return of the Supreme Court to the Bar of Patents*, 2002 SUP. CT. REV. 273, 275. For a more detailed discussion of the frequency with which the Supreme Court heard patent cases over the past two centuries, see id. at 285-301.
281 Id. at 297.
Given this backdrop, licensing of patented technology will likewise increase in importance, especially because of the Court’s recent decision in eBay v. MercExchange, where the Court eliminated the usual rule that a finding of patent infringement entitles the patentee to a permanent injunction. Because a court will no longer grant a permanent injunction to a patentee as a matter of course after proving infringement, the parties may be more inclined to enter licensing agreements for the technology covered by the disputed patents. Or, perhaps more worrisome to unwilling patent holders, the parties could even be forced to enter a license agreement as part of a court’s judgment.

Given the likelihood of increased emphasis placed on patent license agreements, the Seventh Circuit created a general rule that was not really well thought out. For example, under the new rule, a patentee could undermine the purpose of a MFL clause by entering a

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285 A. Tracy Gomes and Thomas George, Patent Value Continues to Soar in 2005, INTELLECTUAL ASSET MANAGEMENT, February/March 2006, at 34-35 (noting in 2005 $300-$500 million in patent litigation settlements, a $1.35 billion verdict, and a $525 future royalty payment buyout: “With patent applications up, patent awards/settlements up and more individuals, assertion companies and corporations asserting their IP rights, it is hard to imagine the future being anything other than more of the same). Compare those amounts with the recent record setting $1.52 billion verdict in the Lucent v. Microsoft cases discussed in Saul Hansell, MP3 Patents in Upheaval After Verdict, N.Y. TIMES, Feb. 23, 2007, at C1.


287 Id. at 1841.


289 This is commonly termed a compulsory license. In the post-eBay world where permanent injunctions are no longer a matter of course after a finding of patent infringement, a district court has already granted a compulsory license: Finisar Corp. v. DIRECTV Group, Inc., No. 1:05-CV-264, 2006 U.S. Dist. LEXIS 76380, at *4 (E.D. Tex. July 7, 2006).
settlement agreement at a lower royalty rate with the MFL licensee’s competitor during the course of a patent infringement suit. The patentee may worry that its patent will be found invalid if litigation continues, and therefore seek to avoid this outcome by inducing the MFL licensee’s competitor to accept a settlement at a lower royalty rate than the rate offered the MFL licensee. Under the Seventh Circuit’s new holding, the MFL licensee has no recourse to prevent this outcome.

At a minimum, a settlement agreement should be considered a license agreement for cases implicating a “most favored licensee” status. An exception to the Seventh Circuit’s general rule, at least in the case of MFL licensees, would prevent collusion between the patentee and the MFL licensee’s competitor from undermining the MFL clause. The outcome of the Waterloo case may have been correct assuming the court correctly interpreted the terms of the contract but the court should not have created a rubric that will govern other dissimilar circumstances.

What can patent practitioners do to take into account the effects of the Seventh Circuit’s Waterloo ruling when drafting license agreements in the future? Practitioners may want to explicitly contain language in a MFL clause to not only include that a MFL licensee is entitled to a more favorably rate granted in a future license agreement, but also more favorable rates agreed to during any settlement of patent infringement disputes covering the same technology outlined in the MFL license agreement. Alternatively, practitioners may not want to 

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290 See Willemijn Houdstermaatschappij, BV v. Standard Microsystems Corp., 925 F. Supp. 193, 196 (S.D.N.Y. 1996) (“To conclude [that a settlement for prior patent infringement is not a license] would allow Willemijn to eviscerate the effect of SMC’s most-favored-licensee clause by, for example, ‘requiring’ a subsequent licensee to pay a higher royalty rate and then waiving the right to sue for all or part of that rate), vacated. Willemijn Houdstermaatschappij, BV v. Standard Microsystems Corp., 103 F.3d 9 (2d Cir. 1997).

291 Waterloo Furniture Components Ltd. v. Haworth, Inc., 467 F. 3d 641, 645-46 (7th Cir. 2006) (The court held that the license agreement expired based on the contract’s terms, meaning Haworth had no more obligations to Waterloo at the time Haworth and SoftView entered the agreement).
label the agreement a license at all, but instead a “covenant not to sue.”

CONCLUSION

The Seventh Circuit put a “most favored licensee” at a competitive disadvantage with other potential licensees. The court created a general rule that settlement agreements are not patent licenses when the patent has expired. To support the new ruling, the court reasoned from an incorrect understanding of what constitutes a patent license and its associated prospective and retrospective qualities. The Seventh Circuit should have given more deference to the Federal Circuit in patent law issues and those cases that implicate substantive patent law. The court focused instead on the label attached to an agreement and not the processes by which the agreement is reached nor its legal effects.
HOW MUCH IS COMMON SENSE WORTH?
WHAT YOU PAID IS WHAT IT'S WORTH, EXCEPT WHEN IT COMES TO DEBT-EQUITY SWAPS

ELISABETH S. SHELLAN*


INTRODUCTION

This Note discusses how the gain resulting from a foreign debt-equity swap should be valued for tax purposes. Usually, gain equals the amount realized from the transaction minus the basis in the property disposed of in the transaction (taxable gain = amount realized – basis).1 This seems very simple. For example, what is the gain from an exchange of pesos worth $19 million for dollar-denominated debt worth $11 million? Easy? Yes; $19 - $11 = $8 million.

But what if the pesos you received in the exchange came with restrictions? You could only use the pesos in Mexico; to buy land in Mexico; to build a factory in Mexico, using only Mexican labor and supplies; and your factory had to export goods from Mexico. Maybe you would no longer think your pesos were worth $19 million? And maybe you no longer believe that your taxable gain from the exchange should be $8 million? So what are your pesos worth?

You think your pesos are worth $11 million—that is after all, what you traded them for! But the Internal Revenue Service (“IRS”) thinks


your pesos are worth $19 million (the face value of the bills is, after all, $19 million), and determines that you have $8 million in taxable gain! So how should your restricted pesos be valued? That is the question this Note will attempt to answer.

This Note will first explain how gain is typically calculated and will then describe an alternative method of calculating gain. Then, it will summarize and critique Kohler Co. v. United States,\(^2\) the Seventh Circuit’s decision discussing how gain from debt-equity swaps should be calculated. Finally, this Note will conclude that United States v. Davis\(^3\) supplies a superior method for easily and correctly valuing the gain from debt-equity swaps.

I. BACKGROUND

A. Mexico’s Debt-Equity Swap Program

Mexico\(^4\) developed a debt-equity swap program during the 1980’s,\(^5\) while the country was in the depths of an economic crisis.\(^6\)

\(^2\) Kohler Co. v. United States (“Kohler IV”), 468 F.3d 1032 (7th Cir. 2006), reheʻg denied and reheʻg en banc denied, No. 05-4472, 2007 U.S. App. LEXIS 3929 (7th Cir. Feb. 12, 2007).


and could no longer service its foreign debt. The goal of Mexico’s swap program was to reduce the outstanding balance of the Mexican government’s foreign-currency-denominated debt while encouraging foreign investment in Mexico. Under the program, non-Mexican corporations that wanted to invest in Mexico, and therefore needed pesos, were able to purchase defaulted Mexican debt on the open market and then swap it with the Mexican government for pesos that could be spent only in Mexico. Mexico designed its program to ensure that 1) its debt would be canceled without requiring it to use foreign currency; 2) the non-Mexican corporation’s payment (made in exchange for the debt cancellation) would remain in Mexico; and 3) foreign currency would enter Mexico through the export of goods manufactured by the Mexican subsidiary of the non-Mexico corporation.

For United States tax purposes, the sale of Mexico’s debt for the restricted pesos is treated as a taxable sale.

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6 Id.
8 Kohler I, 247 F. Supp. 2d at 1085; see generally Christopher Gottscho, Note, *Debt-Equity Swap Financing of Third World Investments—Will the I.R.S. Hinder U.S. Swappers?*, 8 VA. TAX REV. 143, 153 (1988) (“Viewed optimistically, debt-equity swaps may ultimately provide [less developed countries] with a second chance to develop the productive capacity that the huge amounts of external debt incurred was intended to finance”).
9 Kohler Co. v. United States (“Kohler IV”), 468 F.3d 1032, 1033 (7th Cir. 2006), *reh’g denied and reh’g en banc denied*, No. 05-4472, 2007 U.S. App. LEXIS 3929 (7th Cir. Feb. 12, 2007).
10 Kohler I, 247 F. Supp. 2d at 1085.
11 Kohler IV, 468 F.3d at 1035.
B. How Gain is Typically Calculated

First, it is important to understand that there is a difference between gain and taxable gain. The word “gain” means “sources or advantage acquired or increased.”12 This dictionary definition of “gain” is not the same as the way the Internal Revenue Code13 computes “gain.”

In the Internal Revenue Code, the amount of gain from a sale or exchange is determined according to 26 U.S.C. § 1001.14 Gain is equal to, “the excess of the amount realized therefrom over the adjusted basis.”15 The “amount realized” from a sale or exchange is “the sum of any money received plus the fair market value of the property (other than money) received.”16 Generally speaking, a property’s “basis” is the cost of the property.17

If you apply these definitions to the situation described in the introduction to this Note, your taxable gain from $19 million worth of pesos exchanged for debt costing $11 million, would be $8 million ($19 million (amount realized) - $11 million (cost/basis)).18

Recall that if you did not receive any money in a transaction, your “amount realized” is equal to the fair market value of the property

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12 WEBSTER’S NINTH NEW COLLEGIATE DICTIONARY (Frederick C. Mish, ed. 1987).
13 “Internal Revenue Code” refers to Title 26 of the United States Code.
14 26 U.S.C. § 1001(a) (2000) (“Computation of gain or loss. The gain from the sale or other disposition of property shall be the excess of the amount realized therefrom over the adjusted basis provided in section 1011 for determining gain, and the loss shall be the excess of the adjusted basis provided in such section for determining loss over the amount realized). In general, the gain realized from the conversion of property into cash, or from the exchange of property for other property differing materially either in kind or in extent, is treated as income. 26 C.F.R. § 1.1001-1(a) (2006).
15 26 U.S.C. § 1001(a). Gain = amount realized - basis
17 26 U.S.C. § 1012.
received in the transaction;19 and remember that you, the taxpayer, and the IRS disagree as to the value of the pesos. What is the taxable gain if the fair market value of the property received in the transaction is unknown?

C. How to Determine Fair Market Value When There is No “Market?”

Sometimes the fair market value of property, like the restricted pesos described above, is not easily determinable because there is “little or no” market for the property.20 The fair market value of the pesos, or any property, matters because it is one component of calculating taxable gain.21

The idea that the fair market value of property might be equal to the fair market value of the property that it was exchanged for, was first recognized by the courts in 1954, with the decision in Philadelphia Park Amusement Co. v. United States.22 The Court of Claims23 held that “the value of the two properties exchanged in an arms-length transaction are either equal in fact, or are presumed to be equal.”24 In the case, the Court of Claims needed to determine the taxpayer’s basis in an extension of a railway franchise (for construction, maintenance, and operation of a passenger railway), the fair market value of which was difficult to determine.25 The court held that the fair market value of the franchise could be presumed to be equal to the fair market value of the bridge for which the franchise had

23 The Court of Claims is now known as the United States Court of Federal Claims. For information on the history of the court visit: http://www.uscfc.uscourts.gov/USCFCHistory.htm (last visited April 29, 2007).
25 Id. at 184-90.
been exchanged for, if the bridge’s value was *more readily ascertainable than* the franchise’s value.26

In 1962, the *Philadelphia Park* rule was accepted by the Supreme Court in *United States v. Davis*.27 The *Davis* cases28 involved the tax consequences of Mr. Davis’ transfer of stock to his former wife as part of a property settlement executed prior to the Davis’ divorce.29

The Court looked at the income tax consequences of Mr. Davis’ transfer of stock to his wife in two steps.30 First, the Court decided whether the transaction was a taxable event.31 Then, the Court determined what gain resulted from the transaction.32 The Court determined that Mr. Davis’ transfer of stock was a taxable transaction;33 however, this result has since been superseded by statute.34 Returning to the second issue, the Court held that absent a readily ascertainable value, the value of Mrs. Davis’ martial rights had a value equal to the stock she had traded for those rights.35 The Court

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26 *Id.* at 167, 190 (emphasis added).


28 *United States v. Davis*, 370 U.S. 65 (1962) together with, *Davis v. United States*, also on certiorari to the same Court.

29 *Davis*, 370 U.S. at 66. Specifically, Mr. Davis agreed to transfer to his wife, 1,000 shares of stock in exchange for the then Mrs. Davis’ acceptance of the stock “in full settlement and satisfaction of any and all claims and rights against [her] husband whatsoever.” *Id.* at 67.

30 *Id.*

31 *Id.*

32 *Id.*

33 *Id.* at 71.

34 Congress intended to overrule the result in *Davis* with the passage of the Tax Reform Act of 1984, P.L. 98-369. H.R. REP. 98-432 (1984). The provision was later codified as 26 U.S.C. § 1041, which states: “General rule. No gain or loss shall be recognized on a transfer of property from an individual to (or in trust for the benefit of)– (1) a spouse, or (2) a former spouse, but only if the transfer is incident to the divorce.” 26 U.S.C. § 1041(a) (2000).

35 *Davis*, 370 U.S. at 72 (“Absent a readily ascertainable value it is accepted practice where property is exchanged to hold, as did the Court of Claims in *Philadelphia Park Amusement Co. v. United States* that the values ‘of the two
disagreed with lower courts, which had found that there was no way to compute the fair market value of Mrs. Davis’ marital rights and that it was therefore impossible to determine the taxable gain realized by Mr. Davis. The Supreme Court reasoned that it must be assumed, as there was no evidence to the contrary, that the parties acted at arms-length and that they judged their marital rights to be equal in value to the property for which their rights were exchanged. The Court concluded that once it had recognized that the transfer between husband and wife was a taxable event, it was “more consistent with the general purpose and scheme of the taxing statutes to make a rough approximation of the gain realized thereby than to ignore altogether its tax consequences.”

In summary, the Supreme Court held in *Davis* that absent a readily ascertainable value, the values of two properties exchanged in an arms-length transaction are equal or are presumed to be equal to each other. In the forty-five years since the *Davis* decision, neither the Supreme Court nor Congress has overruled or superseded this holding.

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36 The Court of Claims, from which *Davis* had been appealed, *United States v. Davis*, 370 U.S. 65, 66 (1962), had followed the precedent of the Sixth Circuit, *United States v. Davis*, 370 U.S. 65, 68 (1962) (“The matter was considered settled until the Court of Appeals for the Sixth Circuit, in reversing the Tax Court, ruled that, although such a transfer might be a taxable event, the gain realized thereby could not be determined because the impossibility of evaluating the fair market value of the wife’s martial rights. *Comm’r v. Marsham*, 279 F.2d 27 (1960)”).

37 *Davis*, 370 U.S. at 72.

38 *Id.* (The Court acknowledged, but was not persuaded, that, “there is much to be said of the argument that such an assumption is weakened by the emotion, tension and practical necessities involved in divorce negotiations and the property settlements arising therefrom”).

39 *Id.* at 72-73.

40 *Id.* at 72.
D. Different Approaches: Valuing Debt-Equity Swaps

Since the beginning of Mexico’s debt-equity swap program in the early 1980’s, there have been few judicial decisions considering the valuation of the amount realized, and hence the taxable gain, stemming from debt-equity swaps with Mexico. This section will first discuss IRS Revenue Ruling 87-124, which covers debt-equity swaps with foreign governments. Then, this section will review the Court of Appeals for the Fifth Circuit’s decision in *G.M. Trading Corp. v. Commissioner* and the United States Tax Court’s decision in *CMI International, Inc. v. Commissioner*. The Court of Appeals for the Seventh Circuit’s decision in *Kohler Co. v. United States* will be discussed in Section II. As only three cases have been decided, it is premature to say there is a trend in the decisions. However, the decisions of the Tax Court, Fifth Circuit, and Seventh Circuit have all been in favor of the taxpayer.

Revenue Ruling 87-124 (the “Ruling”) was promulgated by the IRS, in 1987, to govern debt-equity swaps with foreign governments. The Ruling describes three situations, with Situations 2 and 3 being variations on Situation 1. Situation 1 describes a debt-equity swap similar to the program described in Section I.A. above. First, a U.S. corporation purchases debt obligations from a U.S. bank for $60; second, the bank delivers the debt obligation to the foreign country’s central bank; third, the central bank credits 900 LCs (local currency) to the U.S. corporation’s foreign subsidiary’s central bank account; and

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42 Rev. Rul. 87-124.
43 121 F.3d 977 (5th Cir. 1997).
44 113 T.C. 1 (T.C. 1999).
45 (“*Kohler IV*”), 468 F.3d 1032 (7th Cir. 2006), *reh’g denied and reh’g en banc denied*, No. 05-4472, 2007 U.S. App. LEXIS 3929 (7th Cir. Feb. 12, 2007).
46 *G.M. Trading Corp.*, 121 F.3d at 981; *CMI Int’l, Inc.*, 113 T.C. at 5; *Kohler IV*, 468 F.3d at 1037.
47 Rev. Rul. 87-124.
48 *Id.*
fourth, the foreign subsidiary issues all its capital stock to its U.S. parent. The Ruling acknowledged that the restrictive character of the local currency received in the swap would “generally reduce” the fair market value of the currency below the value of currency “convertible at the free market exchange rate.” However, no further guidance for establishing the value of the restricted currency was provided. The Ruling concluded that the U.S. corporation has a gain on the exchange of the debt obligations for the local currency “to the extent the fair market value of the 900 LCs [local currency] exceeds $60 [the price paid for the debt obligation].”

Revenue rulings are not binding upon the courts. Since its publication, no court has chosen to apply this Ruling. When the Fifth Circuit examined debt-equity swaps, it described the Ruling as erroneous as a matter of law. And, when the Seventh Circuit addressed the issue, it did not even mention the Ruling in its opinion.

In 1994, the Tax Court ruled on the first debt-equity swap case, which was later appealed to the Fifth Circuit in 1997. In G.M. Trading Corp. v. Commissioner, G.M. had surrendered $600,000 worth of Mexican national debt to the Mexican government in exchange for 1.7 billion pesos, whose use was restricted to the construction of a G.M. plant in Mexico. The Fifth Circuit rejected

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49 Id. (“Y purchased the Obligation from X for $60, which was the fair market value of similar FC debt in the secondary markets outside of FC. X, on behalf of Y, delivered the Obligation to the Central Bank, which credited an account of FX at the Central Bank with 900 LCs. FX then issued all its capital stock to Y”).
50 Id.
51 Id.
52 Id.
53 Broadview Lumber Co. v. United States, 561 F.2d 698, 704 (7th Cir. 1977).
54 G.M. Trading Corp. v. Comm’r, 121 F.3d 977, 980 (5th Cir. 1997).
55 Kohler Co. v. United States (“Kohler IV”), 468 F.3d 1032 (7th Cir. 2006), reh’g denied and reh’g en banc denied, No. 05-4472, 2007 U.S. App. LEXIS 3929 (7th Cir. Feb. 12, 2007).
57 G.M. Trading Corp. v. Comm’r, 121 F.3d 977 (5th Cir. 1997).
58 121 F.3d at 978.
Revenue Ruling 87-124,\(^59\) because the court found that this Ruling implicitly held that no portion of a debt-equity swap would qualify as a nontaxable contribution to capital under 26 U.S.C. § 118.\(^60\)

The court found that there were two parts to the restricted peso payment G.M. had received.\(^61\) The first part of the peso payment by the Mexican government to G.M. was for extinguishing part of Mexico’s national debt.\(^62\) The second part of the payment was a contribution to capital because the payment was to persuade G.M. to invest in Mexico’s economy.\(^63\) The test for determining whether a particular payment is a contribution to capital under section 118 is “the intent or motive of [Mexico].”\(^64\) “[T]he contribution 1) must become a part of the recipient’s capital structure; 2) may not be compensation for a ‘specific, quantifiable service’; 3) must be bargained for; 4) must result in a benefit to the recipient; and 5) ordinarily will contribute to the production of additional income.”\(^65\)

The court concluded that the solution to the valuation problem was to bifurcate the payment.\(^66\) G.M. would be taxed on the value of the restricted pesos received in exchange for extinguishing the debt.\(^67\)

\(^{59}\) Rev. Rul. 87-124.

\(^{60}\) G.M. Trading Corp., 121 F.3d at 980.

\(^{61}\) Id. at 981. Total = Payment to G.M. for extinguishing debt (Davis rule) + Contribution to G.M. ’s capital (section 118).

\(^{62}\) Id.

\(^{63}\) Id.

\(^{64}\) Id. at 980 (citing United States v. Chicago, Burlington & Quincy R.R. Co., 412 U.S. 401, 411 (1973)).


\(^{66}\) G.M. Trading Corp., 121 F.3d at 980-81 (Bifurcation of a section 118 contribution to capital is allowed, according to the Fifth Circuit, because “according to the plain terms of the statute, anything that qualifies as a contribution to capital is nontaxable . . . the statute mandates bifurcation by requiring that any, rather than some, contributions to capital be excluded from income”).

\(^{67}\) Id.
The balance of the payment would be excluded from taxation as a contribution to capital under 26 U.S.C. § 118.68

Returning to the first part of the payment (the taxable portion, not exempt under section 118), the court found that, “when property with a readily ascertainable value is exchanged for property without one, the latter property is presumed to be equal in value to the former.”69 The court emphasized that this principle reflects the common sense notion that an asset’s value is the price persons are willing to pay for it.70 The court concluded that since the transaction was at arms-length, and since there was not a readily ascertainable value for the amount and worth of the pesos exchanged for the debt extinguishment, the court had to follow Davis and assume that value received for $600,000 of debt was, in fact, $600,000.71

The next court to tackle the debt-equity swap valuation issue was the United States Tax Court.72 In 1999, the United States Tax Court issued its decision in CMI International, Inc. v. Commissioner.73 In CMI, CMI-Texas (a wholly owned subsidiary of CMI International) acquired a Mexican debt interest, which it transferred to Industries (CMI-Texas’ Mexican subsidiary).74 The court articulated that while “section 351(a) allows the tax-free exchange of property from a shareholder to its wholly owned subsidiary, section 367(a) may deny such treatment if the transfer is from a domestic to a foreign corporation.”75 The court stated that the transfer described above fell within the scope of section 367(a).76 Assuming arguendo that CMI-Texas realized gain on the transaction, the court held that the amount of recognized gain was limited to zero under temporary income tax

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68 Id.
69 Id. at 983 (citing United States v. Davis, 370 U.S. 65, 72 (1962)).
70 G.M. Trading Corp., 121 F.3d at 983.
71 Id.
73 Id.
74 Id. at 4-5.
75 Id. at 5.
76 Id.
regulations pursuant to section 1.367(a), because the debt interest was not appreciated property.\footnote{Id.}

\textit{CMI} is inapplicable to \textit{Kohler Co. v. United States},\footnote{Kohler Co. v. United States (“\textit{Kohler IV}”), 468 F.3d 1032 (7th Cir. 2006), \textit{reh’g denied and reh’g en banc denied}, No. 05-4472, 2007 U.S. App. LEXIS 3929 (7th Cir. Feb. 12, 2007).} which is discussed fully in Section II., because Kohler had not transferred its interest in the debt obligations to its subsidiary as CMI had done.\footnote{Kohler Co. v. United States (‘’\textit{Kohler I}’’), 247 F. Supp. 2d 1083, 1096 (E.D. Wis. 2003). The court in \textit{Kohler I} did not believe that CMI was applicable to the Kohler transaction. \textit{Id.} The lawyers that argued Kohler, Miller & Chevalier, thought that the Kohler and CMI transactions were similar. Miller & Chevalier, Chartered Tax Controversy Alert, http://www.millerchevalier.com/files/Publication/f13a97d0-7906-461d-8978-7b966825e8ba/Presentation/PublicationAttachment/4d5cadea-4fc9-4993-a44f-92acadab7d1ce/2005-09-28\%20MC\%20Tax\%20Controversy\%20Alert.pdf (last visited April 29, 2007).}

\section{II. \textit{Kohler Co. v. United States}}

\subsection{A. Description of the Kohler Transaction}

Kohler, the Wisconsin manufacturer of plumbing products, decided to build a plant, to be owned and operated by its Mexican subsidiary, Sanimex, in Monterrey, Mexico.\footnote{\textit{Kohler I}, 247 F. Supp. 2d at 1084.} Kohler’s motivation for locating its plant outside the United States was two-fold: 1) significantly lower labor costs, and 2) an increase in its production capacity for lower cost plumbing products in a location close to the United States, the intended market for its products.\footnote{\textit{Id.} at 1084-85.}

Kohler became aware of the Mexican debt equity swap program, which Kohler recognized as an opportunity to realize even greater savings on its planned investment in Mexico.\footnote{\textit{Id.} at 1085.} In May 1987, Kohler applied to the Mexican government for approval to participate in
Mexico’s debt equity swap program. Kohler’s application was approved in September 1987.

Kohler purchased from Bankers Trust Company an interest in publicly traded debt obligations owed by the Mexican government. The face value of the debt interest Kohler acquired was $22,439,000, but Kohler paid only $11,114,267 for the debt. The transaction between Kohler and Bankers Trust was negotiated at arms-length, with the price paid for the debt obligations being the fair market value of the debt at the time of the transaction. Put another way, the amount Bankers Trust received for the debt was the best price at which the debt obligations could be sold.

The debt equity swap transaction was finalized on December 28, 1987. Under the terms of the party’s agreement, four prearranged and interrelated steps occurred.

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83 Id. at 1086.
84 Id.
85 Id.
86 Id.
87 Id.
88 Id.
89 Id. at 1087.
90 Id.
First, Bankers Trust transferred its interest in the Mexican debt obligations to Kohler for $11,114,267.92. Second, Bankers Trust delivered the original debt obligations to a ministry of the Mexican government for cancellation. Third, the Mexican Central Bank established a bank account, into which it deposited 43,778,766,018 Mexican pesos, for Sanimex, Kohler’s Mexican subsidiary. 

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91 The acquisition of the debt obligations occurred in stages prior to as well as on the actual date of the closing. Id.
92 Id.
93 Id.
94 Id.
pesos were nominally equivalent to $19,500,564 or 87% of the face value of the original debt obligations. Finally, Sanimex issued qualified capital stock, in the name of Kohler, for 43,778,766,018 Mexican pesos.

B. Procedural Background

Kohler treated the purchase of the debt and its sale to the Mexican government as yielding no taxable income. Essentially, it was as if the Mexican government had paid Kohler $11.1 million in dollars rather than paying it in pesos. The IRS disagreed with this treatment of the transaction and added $8.4 million to Kohler’s taxable income, the difference between the price that Kohler had paid Bankers Trust for the Mexican debt and $19.5 million.

Kohler then filed with the IRS an amended tax return in which it claimed a refund of income taxes for 1987 in the amount of $3,350,383 (the amount of the additional tax assessed against Kohler as a result of the IRS’s adjustment to Kohler’s income). The IRS disallowed the refund claim and Kohler filed suit for a refund.

Kohler then filed a motion for summary judgment, which was denied by the United States District Court for the Eastern District of Wisconsin on February 20, 2003. Next, Kohler petitioned the court to certify an interlocutory appeal to the Seventh Circuit, which was

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95 Id.
96 Id.
97 Kohler Co. v. United States ("Kohler IV"), 468 F.3d 1032, 1033 (7th Cir. 2006), reh’g denied and reh’g en banc denied, No. 05-4472, 2007 U.S. App. LEXIS 3929 (7th Cir. Feb. 12, 2007).
98 Id.
99 Id.
100 Kohler Co. v. United States ("Kohler I"), 247 F. Supp. 2d 1083, 1088 (E.D. Wis. 2003).
101 Id.
102 Id. at 1083-84.
granted. Then, Kohler moved again for summary judgment, which was granted on September 1, 2005. Finally, the case went to the Seventh Circuit.

C. Seventh Circuit Decision

The first part of the court’s decision consisted of a history of Mexico’s debt-equity swap program and a description of the transaction involving Kohler.

Basically, under the terms of the debt-equity swap program, the Mexican government swapped the $11.1 million debt Kohler had bought from Bankers Trust for $19.5 million worth of pesos, as calculated at the then current market exchange rate of 2245 pesos to the dollar. The Seventh Circuit thought that the qualification in “as calculated at the then current market exchange rate” was critical.

If that was not the right exchange rate to use for the transaction, then the pesos that Kohler received may not have really been worth $19.5 million. The court reasoned that the pesos were worth less because 1) Mexico was willing to offer $19.5 million in pesos for debt that Kohler had purchased for only $11.1 million, and 2) Mexico had to compensate Kohler for accepting pesos that came with restrictions that reduced their value (the pesos had to be spent in Mexico on projects approved by the government and could not be freely converted to dollars or other foreign currencies until 1998). As a
result, Kohler received an exchange rate of 3939 pesos to the dollar, rather than 2245 pesos to the dollar, which is what the court said turned $11.1 million of dollar debt into $19.5 million in pesos.  

The second part of the Seventh Circuit’s decision outlined three different ways of accounting for Kohler’s purchase of Mexican debt.

First, the court proffered its preferred approach, which was “to add $11.1 million to the basis of Kohler’s investment in the Mexican plant.” The court reasoned that this would prevent Kohler from receiving a “windfall.”

Second, the court acknowledged an alternative way of accounting for the swap would have been to accept Kohler’s argument. Kohler had argued that the value of the debt that it purchased was unascertainable at the time of purchase. Thus, the exchange of the debt for the peso account should be treated as a swap yielding no taxable income. However, treating the swap in that manner would

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111 Id.
112 Id.
113 Id. It is somewhat unclear whether the court wants to increase Kohler’s basis by $11.1 million or decrease Kohler’s basis by $8.4 million. The relevant section of the opinion reads, “One might have thought that the way to account for Kohler’s purchase of Mexican debt would have been to add $11.1 million to the basis of Kohler’s investment in the Mexican plant, so that if it ever sold the plant the difference between on the one hand the sale price and on the other hand the sum of $11.1 million and all the other costs of the plant would be taxable income attributable to the sale. Then if the Mexican government’s purchase of $11.1 million in debt from Kohler for $19.5 million in pesos was a windfall for Kohler, reducing the real cost of the plant, Kohler would realize a greater profit from the eventual sale of the plant than it would have realized otherwise, and that profit would be taxable. Even if the plant was never sold, the windfall would give Kohler higher profits (presumably taxable) on sales of the plant’s output because the deductions from taxable income that it could take for depreciation of the cost of the plant would be lessened by the $8.4 million reduction in its basis.” Id. at 1033-34 (emphasis added).
114 Id. at 1033.
115 Id. at 1034.
116 Id.
117 Id.
not mean that the results of Kohler’s transaction would never be taxable, as any capital gains that resulted in the future from Kohler’s use of the pesos to purchase goods and services for its projects would be taxable.\footnote{Id.}

Third, another alternative method to evaluate the transaction, would be to deem the difference between the two amounts (the face value of the pesos and the amount paid for the debt) a contribution to capital to Kohler by the Mexican government.\footnote{Id.} A contribution to capital would not be included in Kohler’s gross income,\footnote{26 U.S.C. § 118(a) (2000).} but would be recorded on Kohler’s books as having a zero basis,\footnote{26 U.S.C. § 362(c).} and so could not be depreciated.\footnote{Kohler IV, 468 F.3d at 1034.} The Seventh Circuit noted that this approach was adopted by the Fifth Circuit in \textit{G.M. Trading Corp. v. Commissioner}, but that it felt “dubious” about it.\footnote{Id.}

The court reasoned that compensation for a “specific, quantifiable service” could not be classified as a contribution to capital and that the Mexican government, to the extent it “overpaid” Kohler for the debt, was buying a service from Kohler, which was the retirement of a portion of Mexico’s foreign debt.\footnote{Id.} The Fifth Circuit thought the purpose of the Mexican debt-equity swap program was to encourage foreign investment in Mexico.\footnote{Id.} However, the Seventh Circuit said that was \textit{a} purpose, albeit a secondary purpose, to Mexico’s desire to retire its foreign debt.\footnote{Id.}

After outlining these three approaches, the Seventh Circuit stated that the parties had taken none of these approaches.\footnote{Id.} Kohler and the IRS had both treated the sale of the Mexican debt for the pesos as a
taxable sale under 26 U.S.C. § 1001(c). The dispute concerned only the value to Kohler of the exchange when made. Kohler argued that it had no gain from the sale. The IRS argued that the entire difference between the $19.5 million in pesos that the Mexican government gave Kohler and the $11.1 million that Kohler had paid to buy the debt that it swapped for the pesos was taxable.

The court disagreed with both sides. In the court’s opinion, Kohler must have had some gain because “$11.1 million in Mexican foreign debt was worth more to it than to Bankers Trust. It wanted pesos; Bankers Trust did not.” However, the pesos were not worth the full $19.5 million at which the Mexican government valued them for purposes of the exchange, because the pesos were not convertible into dollars or any other currency.

In the last section of its decision, the court tasked itself with choosing between the two adversaries’ valuations, both of which, the court believed were “manifestly erroneous.” The court noted that Kohler had argued that it needed no evidence, citing to United States v. Davis, which the court characterized as being “superficially similar” to the Kohler transaction. The Seventh Circuit stated that the Supreme Court “merely assumed,” but did not hold that the wife’s martial rights could not be ascertained with sufficient precision to enable a calculation of the husband’s gain or loss. The court distinguished Davis by stating, “The problem in our case is different.

128 Id. at 1035.
129 Id.
130 Id.
131 Id.
132 Id.
133 Id.
134 Id.
135 Id.
136 Id.
137 Id.
138 Id.
It is what to do when the value of the property exchanged may well be ascertainable but has not been ascertained.\textsuperscript{139}

Nevertheless, the court found that the government’s assessment of the value of the pesos was “undeniably excessive” because it took no account of the restrictions that the Mexican government had placed on the pesos.\textsuperscript{140} However, the court found “Kohler’s efforts [at valuation] . . . equally pathetic.”\textsuperscript{141}

In the court’s words, “The same thing can be worth more to one person (Kohler) than to another (Bankers Trust); that is the basis of market transactions. To a holder of Mexican debt that had no use for pesos, the debt was worth only half its face amount; to someone like Kohler who needed a great many pesos, the debt was worth more.”\textsuperscript{142}

The court emphasized that, “the Service could have justified a more modest estimate yet one well above $11.1 million, but clinging stubbornly to its untenable valuation it suggested no alternative to $19.5 million.”\textsuperscript{143} Finally, the court concluded that since the government “played all or nothing” and lost, it would “get nothing.”\textsuperscript{144}

\section*{III. Analysis}

This section will first discuss three problems with the Seventh Circuit’s decision in \textit{Kohler:} 1) the Seventh Circuit misunderstood the difference between gain and taxable gain, 2) the court needlessly found \textit{Davis} distinguishable, and 3) that courts basis-increase (or decrease) approach was baseless. Then, this section will comment on the Seventh Circuit’s correct decision to reject 26 U.S.C. § 118 as a

\begin{itemize}
\item \textsuperscript{139} \textit{Id.} at 1036.
\item \textsuperscript{140} \textit{Id.}
\item \textsuperscript{141} \textit{Id.} at 1037.
\item \textsuperscript{142} \textit{Id.}
\item \textsuperscript{143} \textit{Id.}
\item \textsuperscript{144} \textit{Id.} The usual rule is that the party with the burden of proof (Kohler) would lose. \textit{Id.} at 1035.
\end{itemize}
way to account for the transaction. Finally, this section will conclude that the *Davis* rule should have applied to the Kohler transaction.

**A. The Seventh Circuit Misperceived the Difference Between Gain and Taxable Gain.**

The overriding problem with the Seventh Circuit’s reasoning in *Kohler* is the court’s confusion between gain (i.e. “I entered into this transaction because I am better off after the transaction is complete”) and taxable gain. As discussed previously, taxable gain is equal to the amount realized minus basis.\[145\]

Kohler had argued that it had no gain from the sale of its debt to Mexico.\[146\] The court’s reaction was that Kohler’s position was “untenable.”\[147\] To the court, $11.1 million in Mexican foreign debt was worth more to Kohler than to Bankers Trust because Kohler wanted pesos, while Bankers Trust did not want pesos.\[148\] Kohler had argued, in the court’s opinion, “absurdly,” that if Kohler had gained from the purchase, the bank must have lost, which Kohler contended the bank would not have done.\[149\] The court’s position was that, “most transactions produce a gain to both parties—that is what induces the transaction.”\[150\] In this sentence, the court is illustrating gain, but not taxable gain.

For example, assume that Kate has a digital camera and Matt has a projector, both of which have a fair market value of $100 and a basis of $10. Let’s say that Kate trades her digital camera for Matt’s projector, because Kate really wants a digital camera and Matt really wants a projector. Perhaps Kate likes Matt’s projector so much that she would be willing to pay him $125 for the projector. Even though Kate’s new projector was worth $125 to her, Kate’s taxable gain from

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\[146\] *Kohler IV*, 468 F.3d at 1035.
\[147\] *Id.*
\[148\] *Id.*
\[149\] *Id.*
\[150\] *Id.*
the exchange is only $90, because the fair market value of the projector was only $100.\textsuperscript{151} For non-cash sales, what is taxed by the government is the difference between the fair market value of the property and the taxpayer’s basis in the property.\textsuperscript{152} Nowhere in the Internal Revenue Code does it state that a taxpayer’s personal value in the property, for example, the fact that Kate really wanted a projector or pesos, come into play.

Or, suppose I buy a bottle of soda from a vending machine. I’m really thirsty, so I would be willing to pay $3.00 for a drink. Luckily, the vending machine only needs $1.25 in order to release a bottle. The government does not tax me on my $1.75 “gain.”\textsuperscript{153}

This first misstep leads the court down the wrong path—looking for a way to measure non-existent “gain” it finds to be inherent in the Kohler transaction.\textsuperscript{154} Since the court has concluded there must be “gain,” the court needs to find a way to distinguish the Kohler transaction from \textit{Davis}. If the \textit{Davis} rule had been applied to the Kohler transaction, Kohler’s swap would have been a “wash,” given

\textsuperscript{151} $90 \text{ gain} = $100 \text{ amount realized} - $10 \text{ basis}.
\textsuperscript{153} A similar idea to the concept described above is known as “imputed income.” Imputed income, which is not taxed, is a form of non-cash income that stems from the enjoyment of property, or from goods used by the taxpayer, or from services performed for or by the taxpayer. John K. McNulty & Daniel J. Lathrope, \textit{FEDERAL INCOME TAXATION OF INDIVIDUALS}, 46 (Thomson West 2004) (1972). For example, the benefit a student receives in excess of the cost of tuition paid, would be imputed income. \textit{Id}. While nothing in the Internal Revenue Code excludes imputed income from taxation, an “unstated exclusion” generally shelters such income from tax, partly because of the administrative and compliance problems involved with attempting to tax imputed income. \textit{Id}. For example, 26 U.S.C. § 132 taxes some employee fringe benefits, which can be considered a form of imputed income. \textit{Id}.
\textsuperscript{154} But c.f. Christopher Gottscho, Note, \textit{Debt-Equity Swap Financing of Third World Investments—Will the I.R.S. Hinder U.S. Swappers?}, 8 VA. TAX REV. 143, 169 (1988) (“The popularity of debt-equity swap financing of [less developed countries] investments among investors indicates there may be some merit to this perception of gain.”)
that the debt interest and the restricted pesos would be deemed to have equal values.\footnote{United States v. Davis, 370 U.S. 65, 72 (1962).}

B. The Court Needlessly Finds Davis Distinguishable.

The second flaw in the Seventh Circuit’s reasoning occurs when the court concludes that United States v. Davis is not applicable to the Kohler transaction.\footnote{Kohler Co. v. United States ("Kohler IV"), 468 F.3d 1032, 1036 (7th Cir. 2006), reh’g denied and reh’g en banc denied, No. 05-4472, 2007 U.S. App. LEXIS 3929 (7th Cir. Feb. 12, 2007).}

Recall that Davis held that absent a readily ascertainable value, the value of two properties exchanged in an arms-length transaction are either equal or presumed to be equal in value.\footnote{Davis, 370 U.S. at 72.}

The court misconstrues the Supreme Court’s holding in Davis by claiming, “[t]he problem in our case is different. It is what to do when the value of the property exchanged may well be ascertainable\footnote{For examples of different ways to value restricted currency, see Leslie A. Sowle, Comment, International Debt for Equity Swaps: Does Revenue Ruling 87-124 Make Sense?, 83 NW. U. L. REV. 1079 (1989).} but has not been ascertained.”\footnote{Kohler IV, 468 F.3d at 1036.}

This of course is not what Davis said.\footnote{Davis, 370 U.S. at 72.} The Court stated that, “Absent a readily ascertainable value it is accepted practice where property is exchanged to hold, as did the Court of Claims in Philadelphia Park Amusement Co. v. United States that the values ‘of the two properties exchanged in an arms-length transaction are either equal in fact, or are presumed to be equal.’”\footnote{Id (internal citations omitted) (emphasis added).}

The key phrase in Davis was “readily ascertainable.” “Readily” means “without much difficulty: easily.”\footnote{WEBSTER’S NINTH NEW COLLEGIATE DICTIONARY (Frederick C. Mish, ed. 1987).} It follows that if the value of the debt interest is easily ascertainable whereas the value of the restricted pesos is not
easily ascertainable, the court should have followed the *Davis* rule and concluded that the value of the debt interest and restricted pesos were equal.

Other commentators have noted that the use of the *Davis* rule should be acceptable in debt equity swaps. This is because the fair market value of debt-equity currency, in this case, the restricted pesos, is affected by the limitations on the use of the currency. In contrast, the fair market value of the debt obligation may be more readily and reliably ascertained because there is a market for the debt obligations. Providing further proof of the sensibility of the *Davis* rule (i.e. the value of the restricted pesos was equal to the value of the debt obligation) is the fact that, “[e]ven if, despite the investment restrictions, a buyer could be found who met the [swap country’s] restrictions, the buyer probably would not pay more for the investment than the U.S. parent paid, assuming the buyer also could utilize debt-equity swaps.”

The discussion of why *United States v. Davis* is the preferred analysis will resume in Subsection E.

C. Adding Basis is Baseless.

The Seventh Circuit suggests in *dicta* that the proper way to account for Kohler’s debt purchase would be to add $11.1 million to

164 Id.
165 Id.
the basis of Kohler’s investment in the Mexican plant.\textsuperscript{169} It is somewhat unclear whether the court desires to add $11.1 million to Kohler’s basis\textsuperscript{170} or subtract $8.4 million from Kohler’s basis.\textsuperscript{171} The court reasoned that this basis-increase (or basis-decrease) approach would prevent Kohler from receiving a “windfall.”\textsuperscript{172}

Here, adding $11.1 million to its basis would be a gift to Kohler. Taxpayers love basis because it lowers their potential taxable gain. For example, if Kohler sold the factory for $50 million and its basis was $29 million\textsuperscript{173} adding $11.1 million to Kohler’s basis would result in basis being $40.1. Upon the sale, the taxable gain would then be $50 million minus $40.1 million, or $9.9 million. Without adding the “extra” $11.1 million to the basis, Kohler’s taxable gain would have been $21 million, $50 million minus $29 million. Obviously, giving Kohler additional basis is not a good solution if the court wants to ensure Kohler is not receiving a tax-free windfall.\textsuperscript{174}

On the other hand, the court’s basis-decrease (or “wait-and-see”\textsuperscript{175}) approach is more sensible. If this is the case, it seems that the court is alluding to treating the Kohler transaction as an “open

\textsuperscript{169} Kohler Co. v. United States ("Kohler IV"), 468 F.3d 1032, 1033 (7th Cir. 2006), reh’g denied and reh’g en banc denied, No. 05-4472, 2007 U.S. App. LEXIS 3929 (7th Cir. Feb. 12, 2007).

\textsuperscript{170} Id. at 1033-34 (“One might have thought that the way to account for Kohler’s purchase of Mexican debt would have been to add $11.1 million to the basis of Kohler’s investment in the Mexican plant, so that if it ever sold the plant the difference between on the one hand the sale price and on the other hand the sum of $11.1 million and all the other costs of the plant would be taxable income attributable to the sale”) (emphasis added).

\textsuperscript{171} Id. (“Even if the plant was never sold, the windfall would give Kohler higher profits (presumably taxable) on sales of the plant's output because the deductions from taxable income that it could take for depreciation of the cost of the plant would be lessened by the $ 8.4 million reduction in its basis”) (emphasis added).

\textsuperscript{172} Id. at 1033.

\textsuperscript{173} Id. at 1032 (Kohler estimated the plant in Mexico would cost at least $29 million to build).

\textsuperscript{174} Id. at 1033.

\textsuperscript{175} Id. at 1035.
transaction.” An “open transaction” is when the sale or exchange or property does not result in reported income at the time of the sale or exchange. If the transaction is treated as “open,” Kohler would not be deemed to have received taxable income until Kohler’s basis (the $11.1 million it had paid for the debt obligation) had been recovered. However, receipt of property, in this case the pesos, is usually “treated as a final sale and a value is somehow placed upon it.”

In any case, the court’s suggestion does not matter because the swap is considered a taxable sale; and the court’s approach does not appear to be allowed by either statute or precedent. Moreover, the open transaction issue may not arise as the IRS, in Revenue Ruling 87-124, which the IRS promulgated to govern foreign debt-equity swaps, views the gain “as occurring at the conversion stage of the transaction.”

D. Correct to Reject Section 118

The Seventh Circuit was correct in rejecting the Fifth Circuit’s endorsement of 26 U.S.C. § 118 as a way of handling the debt-equity swap tax problem. Section 118(a) of the Internal Revenue Code states, “In the case of a corporation, gross income does not include any contribution to the capital of the taxpayer.” This exclusion “applies to the value of land or other property contributed to a corporation by a governmental unit or by a civic group for the purpose of inducing the

177 Id. at 349.
178 Id.
179 Kohler IV, 468 F.3d at 1035.
corporation to locate its business in a particular community."

Contributions to capital can also be made by foreign governments for purposes of inducing business location or expansion. The primary test for whether a transaction will be considered a section 118 contribution to capital is the intent of the person who made the payment. Here, it is clear the Mexican government’s motivation was two-fold, to encourage economic development, but mainly to retire its foreign debt. The law is that compensation for a “specific, quantifiable service” cannot be a contribution to capital. Here, Mexico was buying a service from Kohler—the retirement of a portion of Mexico’s foreign debt, which would exclude the application of 26 U.S.C. § 118 to the Kohler transaction.

E. The Davis Rule Should Have Applied to the Kohler Transaction.

Davis should be applied exactly in situations such as the transaction at issue in Kohler, where the value of restricted pesos is not easily ascertainable, but the value of the debt interest is readily ascertainable.

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182 26 C.F.R. § 1.118-1 (1996); G.M. Trading Corp., 121 F.3d at 980.
183 26 C.F.R. § 1.118-1; Rev. Rul. 70-226.
185 Kohler Co. v. United States (“Kohler IV”), 468 F.3d 1032, 1034 (7th Cir. 2006), reh’g denied and reh’g en banc denied, No. 05-4472, 2007 U.S. App. LEXIS 3929 (7th Cir. Feb. 12, 2007).
186 Id. (citing United States v. Chicago, Burlington & Quincy R.R. Co., 412 U.S. 401, 413 (1973)).
187 Kohler IV, 468 F.3d at 1034.
First, the *Davis* rule is generally accepted\(^{189}\) and it is a principle of tax law that has been reaffirmed many times.\(^{190}\) It is generally accepted because it is intuitively sensible. Unrelated parties in arms-length transactions generally do not give the other side more money for their property than it is worth.\(^ {191}\) The motivation of unrelated

\(^{189}\) United States v. *Davis*, 370 U.S. 65, 72 (1962) (“Absent a readily ascertainable value it is accepted practice where property is exchanged to hold, as did the Court of Claims in *Philadelphia Park Amusement Co. v. United States*, 130 Ct. Cl. 166, 172, 126 F. Supp. 184, 189 (1954), that the values ‘of the two properties exchanged in an arms-length transaction are either equal in fact, or are presumed to be equal.’ *Accord*, United States v. *General Shoe Corp.*, 282 F.2d 9 (C. A. 6th Cir. 1960); *International Freighting Corp. v. Commissioner*, 135 F.2d 310 (C. A. 2d Cir. 1943”).

\(^{190}\) *G.M. Trading Corp. v. Comm’r*, 121 F.3d 977, 983 (5th Cir. 1997) (citing see, e.g., *Keener v. Exxon Co.*, USA, 32 F.3d 127, 132 (4th Cir.1994) (“An actual price, agreed to by a willing buyer and a willing seller, is the most accurate gauge of the value the market places on a good”); *Dessauer v. Comm’r*, 449 F.2d 562, 566 (8th Cir.1971); *Bar L Ranch, Inc. v. Phinney*, 426 F.2d 995, 1001 (5th Cir.1970); *Pulliam v. Comm’r*, 329 F.2d 97, 99 (10th Cir.1964); see also *United States v. Garber*, 607 F.2d 92, 97 (5th Cir.1979) (*en banc*) (assuming, without deciding, the applicability of Davis ); cf. *United States v. Cartwright*, 411 U.S. 546, 551, 93 S. Ct. 1713, 1716 (1973) (“The willing buyer-willing seller test of fair market value is nearly as old as the federal income, estate, and gifts taxes themselves”); *McDonald v. Comm’r*, 764 F.2d 322, 329 (5th Cir.1985) (“We express initially a strong disinclination to disturb the established meaning of the term "fair market value' as it was enunciated by the Supreme Court in United States v. Cartwright”); but cf. *Mitchell v. Comm’r*, 590 F.2d 312, 314 (9th Cir.1979) (declining to apply the Davis rule to a stock option, the value of which could be easily determined when sold (though the value could not easily be determined when the option was granted), and cautioning that the Davis rule should be applied only as a last resort to prevent taxable exchanges without readily ascertainable values from escaping taxation altogether)).

\(^{191}\) Leslie A. Sowle, Comment, *International Debt for Equity Swaps: Does Revenue Ruling 87-124 Make Sense?*, 83 NW. U. L. REV. 1079, 1105 (1989) (“After all the market price on which the negotiated cost of the obligation would be based presumably reflects what debt for equity swaps are worth to buyers and sellers of developing country debt”); Christopher Gottscho, Note, *Debt-Equity Swap Financing of Third World Investments—Will the I.R.S. Hinder U.S. Swappers?*, 8 VA. TAX REV. 143, 174 (1988) (“Yet the best reason for applying the presumed equivalence-in-value [*Davis*] rule is that there is no reason to believe an investor
parties is to get the best price they can; not to give their opponent “freebies.”

In addition to being intuitively sensible, the Davis rule has been applied to an analogous fact situation. The Fifth Circuit, in *G.M. Trading Corp. v. Commissioner*, concluded that since G.M. had surrendered $600,000 of debt to the Mexican government in exchange for an unknown value of restricted pesos, the court had to assume that the value received for $600,000 of debt was, in fact, $600,000 since the transaction was at arms-length and the value of the restricted pesos was not readily ascertainable. The *G.M.* court reaffirmed *Davis*, and noted that this principle reflects the common sense notion that an asset’s value is the price persons are willing to pay for it.

Further strengthening the appeal of the *Davis* rule is that Court of Claims, the court that originated the rule in *Philadelphia Park Amusement Co. v. United States*, believes that the *Davis* rule can be to some extent widely applied. The Court of Claims in *Tasty Baking Co.* considered the situation of a taxpayer who had contributed real property to his employee’s pension plan. The court said, “[i]t is clear . . . that the technique of presuming an intangible and unappraisable contribution as an equal exchange for property transferred is to be applied to a variety of situations broad enough at least to include a taxpayer who desires the separation of a wife, and one who wishes the continued adhesion of an employee.” The court concluded that the *quid pro quo* for the contribution was the past and future services of the taxpayer’s employees, which was presumptively

would pay any more for an equity investment that it believes the investment is worth”.

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192 *G.M. Trading Corp. v. Comm’r*, 121 F.3d 977, 983 (5th Cir. 1997).
193 *Id.*
194 *Id.* (citing see United States v. Davis, 370 U.S. 65, 72 (1962)).
195 *G.M. Trading Corp.*, 121 F.3d at 983.
198 *Id.* at 59.
199 *Id.* at 61-62 (emphasis added).
equal to the fair market value of the real property contributed to the pension plan.  

Most importantly, the fact situations of the cases where the *Davis* rule has been effectively applied are more similar to the characteristics of debt-equity swaps than the characteristics of transactions where the *Davis* rule did not apply.  

For example, in *Bar L Ranch, Inc. v. Phinney* the court held that the *Davis* rule applied in a situation where a taxpayer traded 51.576 acres of land and improvements in exchange for the taxpayer’s indebtedness and open accounts. The court noted that there was no market established for the note and open accounts and that it would be difficult, even for an expert, to value the note and open accounts.

The *Davis* rule has also been applied to value gasoline distribution agreements, and stock that has no readily ascertainable market value because no sales of the stock had ever been made.

In contrast, in *Dessauer v. Commissioner* the court held that the *Davis* rule was inapplicable because, “[t]here is nothing inherently difficult in ascertaining the value of commercial paper which is regularly bought and sold on the market.” In another case, the court found that a taxpayer was not entitled to rely on *Davis* to value a stock option because the value of the option, although not readily ascertainable at the time it was granted, could be determined with precision at the time it was sold.

200 Id. at 63.
202 Bar L Ranch, 426 F.2d at 999 (The taxpayer was insolvent).
203 Id. at 1001.
204 Id.
206 S. Natural Gas Co., 188 Ct. Cl. at 352.
207 449 F.2d at 566.
208 Mitchell v. Comm’r, 590 F.2d 312, 314 (9th Cir. 1979).
Unlike commercial paper and stock options, it is difficult to ascertain the value of restricted pesos, such as the ones at issue in *Kohler*.\(^{209}\) One commentator has noted that, “[t]he main limitation on the practice of valuing property received according to the appraisable property exchanged is that its use is confined to cases where there is ‘little or no market’ for the unappraisable property . . . [but the] restrictions imposed by [swap countries] on investments financed by debt-equity swaps assure that this limitation is inapplicable.”\(^{210}\) The restricted pesos offered by Mexico “can only be used for approved investments and cannot be sold.”\(^{211}\) In addition, “[t]he secondary market exists only for debt; there are no firm indicators of the local currency’s value apart from subjective discounting which is inaccurate due to lack of liquidity and political risk.”\(^{212}\)

Moreover, not following the *Davis* rule leads to unreasonable results, given the fact that the debt-equity swap valuation problem can be easily solved by application of the *Davis* rule. The only solution offered by the Seventh Circuit is that the court could estimate the value of the restricted currency itself. After the court determined that the value of the pesos “may well be ascertainable but has not been ascertained,”\(^{213}\) the court suggested that the IRS present evidence that could persuade a rational fact finder that the pesos Kohler received from the Mexican government were worth well above $11.1 million.\(^{214}\)

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\(^{209}\) See *Kohler Co. v. United States* (“*Kohler IV*”), 468 F.3d 1032, 1037 (7th Cir. 2006), reh’g denied and reh’g en banc denied, No. 05-4472, 2007 U.S. App. LEXIS 3929 (7th Cir. Feb. 12, 2007).

\(^{210}\) Christopher Gottscho, Note, *Debt-Equity Swap Financing of Third World Investments—Will the I.R.S. Hinder U.S. Swappers?*, 8 VA. TAX REV. 143, 172-73 (1988). “The presumed-equivalence-in-value rule of *Davis* has generally been limited to ‘cases involving valuation of property for which there is little or no market.’” *Bar L Ranch v. Phinney*, 426 F.2d 995, 1001 (5th Cir. 1970) (quoting *Seas Shipping Co. v. Comm’r*, 371 F.2d 528, 529 (2d Cir. 1967)).

\(^{211}\) Christopher Gottscho, Note, *Debt-Equity Swap Financing of Third World Investments—Will the I.R.S. Hinder U.S. Swappers?*, 8 VA. TAX REV. 143, 172-73 (1988).\(^{212}\)

\(^{212}\)*Id.*

\(^{213}\)*Kohler IV*, 468 F.3d at 1036-37.

\(^{214}\)*Id.* at 1037.
This suggestion seems to inapposite to the court’s own dismay surrounding Kohler’s and the IRS’s “pathetic” attempts as valuing the restricted pesos.\textsuperscript{215} Furthermore, the application of this policy would be very problematic for a debt-equity investor.\textsuperscript{216} This type of rule is “judgmental” as opposed to “mechanical.”\textsuperscript{217} Mechanical rules are rigid and can be predictably applied, while judgmental rules can be manipulated.\textsuperscript{218} In addition, judgmental rules require legal advice and often litigation, which makes their application expensive.\textsuperscript{219} On top of which, the outcome will be unpredictable, especially when there is an absence of judicial precedents and a lack of reliable expert testimony.\textsuperscript{220} These disadvantages could discourage debt-equity swaps, especially when investors consider that their estimate could be different from the court’s estimate, making them liable for taxes that they never expected to pay.\textsuperscript{221}

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{215} \textit{Id.}
\item \textsuperscript{216} Leslie A. Sowle, Comment, \textit{International Debt for Equity Swaps: Does Revenue Ruling 87-124 Make Sense?}, 83 NW. U. L. REV. 1079, 1102 (1989).
\item \textsuperscript{217} \textit{Id.}
\item \textsuperscript{218} \textit{Id.}
\item \textsuperscript{219} \textit{Id.}
\item \textsuperscript{220} \textit{Id.}
\item \textsuperscript{221} \textit{Id.} at 1084 (“[t]he uncertain tax consequences of swaps may actually deter potential investors from embarking on these transactions”).
\end{enumerate}
\end{footnotesize}
CONCLUSION

The Seventh Circuit should have applied the Davis rule in Kohler Co. v. United States.\(^{222}\) The Davis rule is generally accepted\(^{223}\) and it is a principle of tax law that has been reaffirmed many times.\(^{224}\) The Davis rule is intuitively sensible; unrelated parties in arms-length transactions do not give their adversary more money for their property than it is worth.\(^{225}\) Most importantly, the fact situations of the cases

\(^{222}\) Kohler Co. v. United States ("Kohler II"), 468 F.3d 1032 (7th Cir. 2006), reh'g denied and reh'g en banc denied, No. 05-4472, 2007 U.S. App. LEXIS 3929 (7th Cir. Feb. 12, 2007).

\(^{223}\) United States v. Davis, 370 U.S. 65, 72 (1962) ("Absent a readily ascertainable value it is accepted practice where property is exchanged to hold, as did the Court of Claims in Philadelphia Park Amusement Co. v. United States, 130 Ct. Cl. 166, 172, 126 F. Supp. 184, 189 (1954), that the values ‘of the two properties exchanged in an arms-length transaction are either equal in fact, or are presumed to be equal.’ Accord, United States v. General Shoe Corp., 282 F.2d 9 (C. A. 6th Cir. 1960); International Freighting Corp. v. Commissioner, 135 F.2d 310 (C. A. 2d Cir. 1943)").

\(^{224}\) G.M. Trading Corp. v. Comm’r, 121 F.3d 977, 983 (5th Cir. 1997) (citing see, e.g., Keener v. Exxon Co., USA, 32 F.3d 127, 132 (4th Cir.1994) ("An actual price, agreed to by a willing buyer and a willing seller, is the most accurate gauge of the value the market places on a good"); Dessauer v. Comm’r, 449 F.2d 562, 566 (8th Cir.1971); Bar L Ranch, Inc. v. Phinney, 426 F.2d 995, 1001 (5th Cir.1970); Pulliam v. Comm’r, 329 F.2d 97, 99 (10th Cir.1964); see also United States v. Garber, 607 F.2d 92, 97 (5th Cir.1979) (en banc) (assuming, without deciding, the applicability of Davis ); cf. United States v. Cartwright, 411 U.S. 546, 551, 93 S. Ct. 1713, 1716 (1973) ("The willing buyer-willing seller test of fair market value is nearly as old as the federal income, estate, and gifts taxes themselves"); McDonald v. Comm’r, 764 F.2d 322, 329 (5th Cir.1985) ("We express initially a strong disinclination to disturb the established meaning of the term "fair market value' as it was enunciated by the Supreme Court in United States v. Cartwright"); but cf. Mitchell v. Comm’r, 590 F.2d 312, 314 (9th Cir.1979) (declining to apply the Davis rule to a stock option, the value of which could be easily determined when sold (though the value could not easily be determined when the option was granted), and cautioning that the Davis rule should be applied only as a last resort to prevent taxable exchanges without readily ascertainable values from escaping taxation altogether)).

where the Davis rule has been applied are more similar to the characteristics of debt-equity swaps than the characteristics of transactions where the Davis rule has not been applied. This is because “[t]he main limitation on the practice of valuing property received according to the appraisable property exchanged is that its use is confined to cases where there is ‘little or no market’ for the unappraisable property . . . [but the] restrictions imposed by [swap countries] on investments financed by debt-equity swaps assure that this limitation is inapplicable.”

Moreover, not following the Davis rule leads to unreasonable results. If Davis is applied, the Kohler transaction described above would be treated as a “wash.” This means that Kohler would not have any taxable gain (or loss) from the exchange of $11 million debt for $19 million of restricted pesos.

all the market price on which the negotiated cost of the obligation would be based presumably reflects what debt for equity swaps are worth to buyers and sellers of developing country debt”); Christopher Gottscho, Note, Debt-Equity Swap Financing of Third World Investments—Will the I.R.S. Hinder U.S. Swappers?, 8 VA. TAX REV. 143, 174 (1988) (“Yet the best reason for applying the presumed equivalence-in-value [Davis] rule is hat there is no reason to believe an investor would pay any more for an equity investment that it believes the investment is worthless”).


228 Leslie A. Sowle, Comment, International Debt for Equity Swaps: Does Revenue Ruling 87-124 Make Sense?, 83 NW. U. L. REV. 1079, 1106 (1989) (“If an investor may validly apply this equation [Davis rule] in determining the tax consequences of a debt for equity swap, the amount realized on the swap will equal the swap’s cost to the investor, yielding no taxable gain”).
On the other hand, if the Seventh Circuit’s *dicta* in *Kohler*\(^ {229}\) is applied to debt-equity swaps, companies, like Kohler would not know the cost of their debt-equity swap transactions beforehand.\(^ {230}\) Companies would have to hire experts to value the restricted currency, and then litigate the matter if the IRS disagreed with the expert’s valuation.\(^ {231}\) This is unreasonable, especially since the debt-equity swap valuation problem can be easily solved by application of the *Davis* rule.\(^ {232}\)

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\(^{229}\) Kohler Co. v. United States ("Kohler II"), 468 F.3d 1032, 1037 (7th Cir. 2006), *reh’g denied and reh’g en banc denied*, No. 05-4472, 2007 U.S. App. LEXIS 3929 (7th Cir. Feb. 12, 2007).


\(^{231}\) *Id.*