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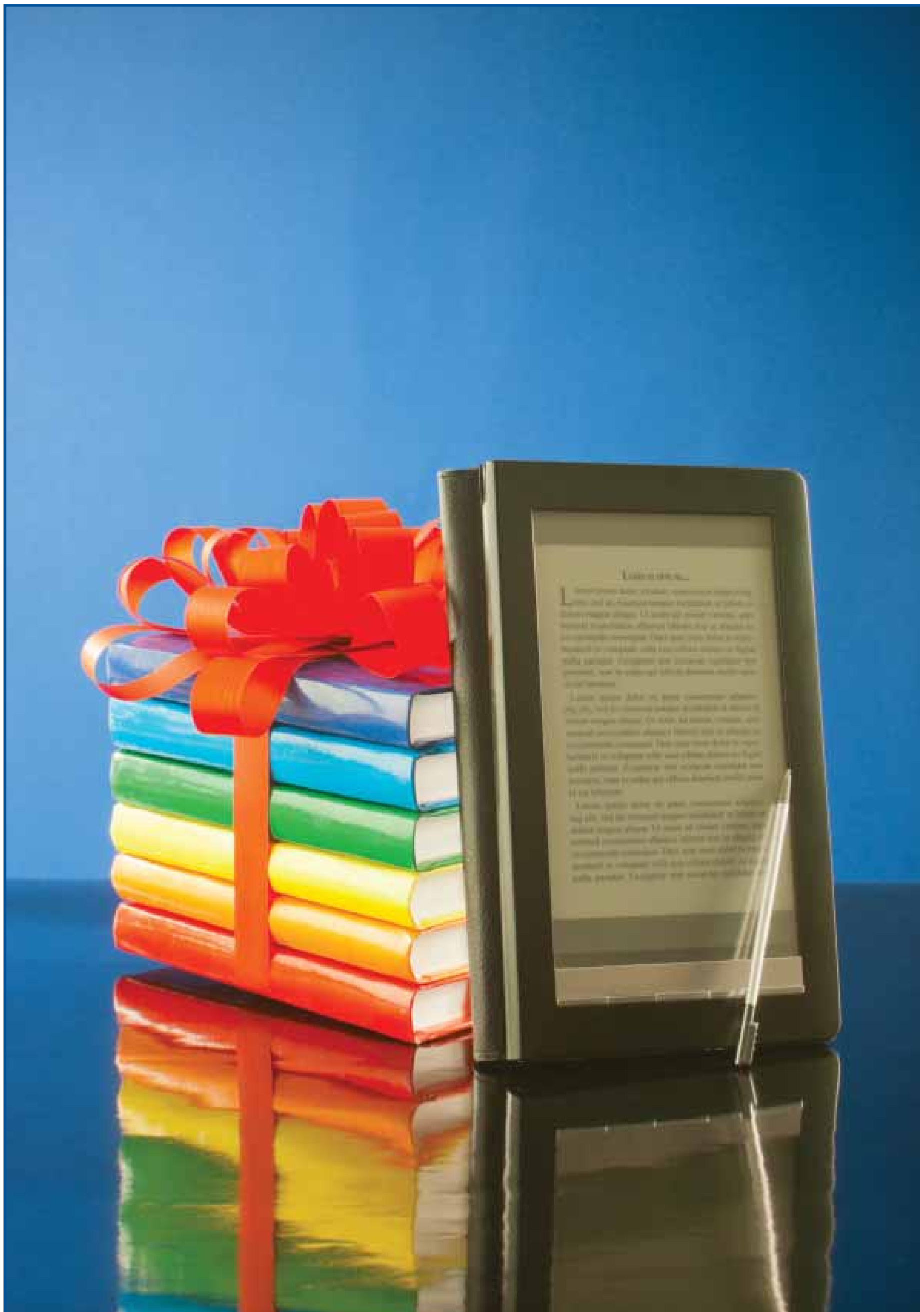
Entertainment, Arts and Sports Law Journal

A publication of the Entertainment, Arts and Sports Law Section of the New York State Bar Association



Inside

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Remarks from the Chair

Welcome to the EASL adventure! In the recent past, many of our members have had their reality augmented and learned how to handle copyrights in estate planning; they toured the Whitney Museum and played Wii at the Galway Hooker (yes, you read that correctly); they were enlightened by Professor Stan Soocher and educated on the topic of Manga (Japanese comics)…from Bushwick to Buffalo, EASL is one to watch. What next? I'm so glad you asked. First though, you should know what EASL has been up to in a bit more detail.

In case you weren't aware, art flourishes in Bushwick, Brooklyn, and EASL is there. This Spring the Fine Arts Committee, Chaired by Judith Prowda, in cooperation with EASL's Second District and its representative, Innes Smolansky, and Carol Steinberg, with the Pro-Bono Steering Committee, organized an introductory program for artists and lawyers focusing on copyright basics, fair use, and artist/dealer consignment agreements. Held during Bushwick's annual "Open Studios," a true community art experience, the legal panel presentation was just the right balance for the combined audience of artists and attorneys. Art also flourishes in Buffalo as members of the NYSBA House of Delegates (HOD) learned this year at its March meeting held in Buffalo, New York. Along with NYSBA business, the Albright-Knox Art Gallery and the Burchfield Penney Art Center were part of the HOD experience. EASL was there as well, represented by our delegate Judith Prowda, and myself as Alternate Delegate. In addition, on April 25th, EASL members enjoyed a substantive and social program at Buffalo Law School, thanks to Leslie Mark Greenbaum, EASL's Eighth District Representative, who organized the event.

In May, EASL held its Annual Spring Program comprised of two panels, the first of which was *Estate Rights in Music Copyrights*. Moderated by Richard Garza (BMI), panelists Arlene Harris (Kaye Scholer LLP) and Gabe Wolosky (Prager & Fenton LLP) explored the legal, tax, and business considerations in inheriting music publishing interests in artful detail. For the second panel, if we had them we would have donned our Google Glasses and stepped into *Augmented Reality*, which was the subject of discussion among high-tech panelists Rebecca Borden (CBS), John Havens (Yoxi), and David Leit (Lowenstein Sandler, PC). Moderated by Britton Payne (Foley & Lardner LLP), the talk took us through a vast array of emerging technology and copyright and trademark law. Our thanks to Second Vice-Chair Diane Krausz for coordinating this program, along with Britton Payne, Richard Garza and Gary Roth.

What would Spring be without a visit to the Whitney Museum for its Biennial? That's what our Young Entertainment Lawyers Committee had to be thinking when they, along with our Fine Arts Committee, organized a guided tour on May 6th. In full bloom, the Whitney was celebrating the current state of contemporary art in America. Thanks to Ezgi Kaya, Kibum Kim, and Judith Prowda for providing us a most pleasant way to start a Sunday afternoon.

As for accolades, the award goes to…EASL's Diversity Committee for meeting and exceeding the Diversity Challenge put forth by New York State Bar Association President Vincent Doyle. At the NYSBA Section Leaders Conference in May, EASL's Immediate Past Chair, Judith Prowda, accepted the award for "Diversity Challenge Champion" on behalf of the Section. This award acknowledged EASL among the top 10 NYSBA Sections for excellence in developing best practices encouraging diversity. A deserving tribute to our EASL Diversity Committee Co-Chairs: Anne Atkinson and Cheryl Davis, and the Committee members (or "team" as Anne fondly refers to them), Rob Thony, Asia Sanders, Rich Boyd, Rakhi Bahadkar, Nyasha Foy, Elissa Hecker, Jessica Thaler, Judith Prowda, and myself. The tireless efforts of the "team" and leadership, with support from EASL Executive Committee members, made great events happen, including two outstanding programs with the Black Entertainment and Sports Lawyers Association and the Metropolitan Black Bar Association, on *Reality TV* and *Sports*, respectively, along with the establishment of a Mentor program, in which all of our members may participate as either Mentor or Mentee. Interested Mentors should sign up at www.nysba.org/EASLMENTOR for a truly rewarding experience. The energy created by this group will endure, and we look forward to its continued ingenuity in creating unique learning experiences for us all.

Ever the explorers of new frontiers, our Digital Media Committee Co-Chairs Jason Aylesworth, Megan Maxwell, and Andrew Seiden, collaborated on EASL's first Wii Tournament, which was held on April 25th in the back room at the Galway Hooker Pub on 36th Street in Manhattan. In a relaxed social atmosphere, the evening was free from substantive issues and focused solely on the camaraderie of EASL members and folks new to EASL, with a bit of sport, refreshment and a light fare menu. It was a most enjoyable evening. Special thanks to EASL's Fourth District Representative, Edward Flink and his daughter, Stephanie, for joining us for this event. In May, the Digital Media Committee and the Fine Arts Committee further stretched our intellectual muscle by presenting *Is Manga* *a Crime? Non-photographic Images, Child Pornography and Freedom of Expression*. The articulate panel of Amy Adler (Professor of Law, New York University School of Law), Michael Delohery (Chief, High Technology Crime Bureau, Westchester County DA's Office), and Charles Brownstein (Executive Director, Comic Book Legal Defense Fund), moderated by our own Jason Aylesworth, walked us through the law on child pornography, the realities of how children are affected by child pornography, and how the possession of certain comics may be deemed possession of child pornography.

Always eagerly anticipated, the annual *Update in Film and TV Law* with Professor Stan Soocher, held on May 18th, was a resounding success. Each year the Motion Pictures, Television & Radio, and Litigation Committee Co-Chairs Steven Rodner (EASL Vice Chair), Mary Ann Zimmer, Pamela Jones, Barry Skidelsky, Paul LiCalsi and Stanley Pierre-Louis, offer this two-hour lunch program which allows for lively debate of the recently decided dispositive cases presented by Professor Soocher and provides that rare opportunity for member participation and a genuine learning experience.

Co-sponsored by the Television & Radio, Music & Recording Industry, and Motion Pictures Committees, the June 14th program on *Music Licensing for Film & Television in the Digital Age* sold out shortly after it was announced. Moderated by the "voice" of EASL, Barry Skidelsky, the program panel of Jeff Brabec (BMG Chrysalis), Benjamin E. Marks (Weil, Gotshal and Manges LLP) and Matthew DeFilippis (ASCAP) examined emerging digital business models and related issues from the creative, business and legal perspectives. Thanks to the Program Co-Chairs Pamela Jones, Christine Pepe, Barry Skidelsky, and Mary Ann Zimmer. It was an afternoon well spent by all in attendance.

Another first-of-its-kind program, *Damages in Publicity Rights Cases*, organized by Co-Chairs Barry Werbin and Ned Rosenthal of the Publicity, Privacy & Media Committee, reviewed and assessed current trends in damage awards and related strategies and valuations in right of publicity cases. This program was held on June 26th and featured a post-program reception and networking opportunity, where EASL members mingled with the panelists in a relaxed setting.

As Spring turned into Summer, this EASL season ended on a now familiar note with our annual EASL Member Wine Tasting Dinner. Held in late June at Villa Berulia in midtown Manhattan, our members enjoyed a leisurely five-course dinner accompanied by various wines and lively conversation. This year the evening had a French flair in food and wine and a sprinkle of *je ne sais quoi*. Thanks to our Membership Co-Chairs Jessica Thaler and Ethan Bordman for coordinating this event; it was a wonderful opportunity for EASL members to simply enjoy the company of their colleagues.

So, "what's next" you asked? Fall 2012 welcomes us with a program on *Fine Arts and Financing/Investment*—Program Chairs Jessica Thaler and Judith Prowda; an ADR CLE event; and our Fall Program which will include *E-Book Rights, The Sequel*—Program Co-Chairs Judith Bass and Ken Swezey will focus the lens on developments in this evolving field, and *Bankruptcy and Entertainment Assets*—Program Co-Chairs Carol Steinberg, Barry Skidelsky, Eric Stenshoel, Andrew Seiden, and Daniel Marotta will explore how entertainment-related assets are handled in bankruptcy. There are many more substantive and social programs in the works that will take us through the holidays and into the New Year of 2013, which, incidentally, is EASL's 25th Anniversary year! Keep an eye out for news on special anniversary programs and events starting this Fall. In the meantime, have a wonderful summer.

EASL—come join the adventure!

Rosemarie Tully

Mentoring Program

EASL recognizes the need for forming mentor / mentee relationships to grow the field and to exchange experiences. The Diversity Initiative aims to bring together seasoned practitioners and young attorneys to learn from each other. Please sign up to become a Mentor at:

www.nysba.org/EASLMENTOR

Editor's Note

It is that wonderful time of year again, when hopefully you are including this issue of the *EASL Journal* in your summer reading materials. I promise you a wide selection of timely and interesting articles.

I am also very excited to report that EASL's next book about issues in sports law, *In the Arena*, is in the final editing stages and should be in Albany's hands by the time you read this. The topics covered will include:

Intellectual property and licensing
Agency
Collective bargaining issues
Concussions
Title IX
Rights of Publicity and Privacy of athletes
Sweepstakes and promotions
NCAA
Torts, sports and criminal law
Mascots
Dental medical safety
EU sport law
Advertising and media
Doping

Stay tuned for news on how to acquire your own copy in 2013.

As always, I look forward to hearing from you, either via feedback to articles, or with submissions.

Elissa

THE NEXT *EASL JOURNAL* DEADLINE IS FRIDAY, SEPTEMBER 28, 2012.

Elissa D. Hecker practices in the fields of copyright, trademark and business law. Her clients encompass a large spectrum of the entertainment and corporate worlds. In addition to her private practice, Elissa is a Past Chair of the EASL Section. She is also Co-Chair and creator of EASL's Pro Bono Committee, Editor of the EASL Blog, Editor of *Entertainment Litigation and Counseling Content Providers in the Digital Age*, a frequent author, lecturer and panelist, a member of the Board of Editors for the NYSBA Bar *Journal*, incoming Chair of the Board of Directors for Dance/NYC, a member of the Copyright Society of the U.S.A (CSUSA), a member of the Board of Editors for the *Journal of the CSUSA* and Editor of the CSUSA Newsletter. Elissa is a 2011 Super Lawyers Rising Star, the recipient of the CSUSA's first ever Excellent Service Award and recipient of the New York State Bar Association's 2005 Outstanding Young Lawyer Award. She can be reached at (914) 478-0457, via email at: EHeckerEsq@yahoo.com or through her website at EHECKERESQ.com.

CORRECTIONS

Steve Richman's name appeared incorrectly as Steve Richmond in the Annual Meeting transcript from the Spring issue. His name has always been, and will continue to be, Richman. Sorry Steve.

Carol Steinberg was mistakenly identified as the Assistant Treasurer of the Pro Bono Committee. Carol is a Pro Bono Steering Committee member and Assistant Treasurer of the EASL Section.

Jenna Bass Levy was listed in the previous issue as a Columbia University law student when in fact she was a student at the New York University School of Law.

NYSBA Guidelines for Obtaining MCLE Credit for Writing

Under New York's Mandatory CLE Rule, MCLE credits may be earned for legal research-based writing, directed to an attorney audience. This might take the form of an article for a periodical, or work on a book. The applicable portion of the MCLE Rule, at Part 1500.22(h), states:

> *Credit may be earned for legal research-based writing upon application to the CLE Board, provided the activity (i) produced material published or to be published in the form of an article, chapter or book written, in whole or in substantial part, by the applicant, and (ii) contributed substantially to the continuing legal education of the applicant and other attorneys. Authorship of articles for general circulation, newspapers or magazines directed to a non-lawyer audience does not qualify for CLE credit. Allocation of credit of jointly authored publications should be divided between or among the joint authors to reflect the proportional effort devoted to the research and writing of the publication.*

Further explanation of this portion of the rule is provided in the regulations and guidelines that pertain to the rule. At section 3.c.9 of those regulations and guidelines, one finds the specific criteria and procedure for earning credits for writing. In brief, they are as follows:

- The writing must be such that it contributes substantially to the continuing legal education of the author and other attorneys;
- it must be published or accepted for publication;
- it must have been written in whole or in substantial part by the applicant;
- one credit is given for each hour of research or writing, up to a maximum of 12 credits;
- a maximum of 12 credit hours may be earned for writing in any one reporting cycle;
- articles written for general circulation, newspapers and magazines directed at nonlawyer audiences do not qualify for credit;
- only writings published or accepted for publication after January 1, 1998 can be used to earn credits;
- credit (a maximum of 12) can be earned for updates and revisions of materials previously granted credit within any one reporting cycle;
- no credit can be earned for editing such writings;
- allocation of credit for jointly authored publications shall be divided between or among the joint authors to reflect the proportional effort devoted to the research or writing of the publication;
- only attorneys admitted more than 24 months may earn credits for writing.

In order to receive credit, the applicant must send a copy of the writing to the New York State Continuing Legal Education Board, 25 Beaver Street, 8th Floor, New York, NY 10004. A completed application should be sent with the materials (the application form can be downloaded from the Unified Court System's Web site, at this address: www.courts.state.ny.us/mcle.htm (click on "Publication Credit Application" near the bottom of the page)). After review of the application and materials, the Board will notify the applicant by first-class mail of its decision and the number of credits earned.

Pro Bono Update

Pro Bono Steering Committee:

Clinics: Elissa D. Hecker, Kathy Kim

Speakers' Bureau: Carol Steinberg

NYFA: Elissa D. Hecker, Carol Steinberg

Litigations: Irina Tarsis

Clinic

In May we had a highly successful Clinic with the New York Foundation for the Arts (NYFA), where many volunteers from the EASL and IP Sections helped a variety of clients.

Thank you to these volunteers:

Anne S. Atkinson
Nicole Baffi
Cheryl L. Davis
Patricia Dillon
Lindsey Friedman
Jon-Paul Gabriele
Philip Grottfried
Elissa D. Hecker
Marc Jacobson
Kathy Kim
Diane Krausz
Marc Lieberstein
Jason Lunardi
Katherine M. Lyon
Chris Matthew
Christopher Messina
Melissa Morales
Meghan Moroney
Madeleine M. Nichols
Jennie L. Sacks
Aleesha Sanders
Robert A. Seidenberg
Jennifer Newman Sharpe
Stephanie Spangler
Amy M. Williams
Janice K. Yoon

The overwhelming feedback from all of the attorneys, law students and clients was positive, and we are planning another Clinic with NYFA for the Fall. You will soon receive information about how to volunteer. As always, we were able to match newly admitted attorneys, attorneys in transition and law students with more senior attorneys for all of the clients, with great results.

Photo credits:

Clinic photos were taken by Elissa D. Hecker

Legal Basics for Artists in Bushwick photos were taken by Ariel Greenberg

   

 

Legal Basics for Artists

EASL's Fine Art and Pro Bono Steering Committees presented a panel discussion on Legal Basics for Artists in Bushwick on June 1 in connection with Bushwick's Open Studio weekend. The event was a great success, with much appreciation expressed by the artists and attorneys who attended. Judith Prowda, Immediate Past Chair of the Section, conceived the idea for a panel when she took her students from Sotheby's Institute of Art out to Bushwick earlier in the year. Judith moderated the panel, which consisted of "Copyright Basics," presented by Carol Steinberg, one of EASL's Pro Bono Steering Committee members, "Moral Rights," with Richard Altman, and "Artist-Gallery Agreements," with Megan Maxwell,

EASL's Co-Chair of the Digital Media Committee. Innes Smolansky, EASL's Second Judicial District Representative, organized the wonderful reception both before and after the panel discussion, which was enjoyed by all.

About 80 artists and a few lawyers attended the event, which consisted of a reception, panel discussion and Q&A. The program was held at the Diana H. Jones Senior Center in the heart of Bushwick, where photographer Daryl-Ann Saunders curated a wonderful exhibit at the center itself.

Carol began her discussion with the following hypothetical and image of an abstract painting:

> A producer from the Brooklyn Academy of Brooklyn (BAM) contacted an artist whose work she saw in a gallery in Bushwick, and asked the artist to re-create the

work as a backdrop for a BAM production. The work would be a work-for-hire, the artist would receive $5,000 in compensation, she could hire an assistant, and must include images of a man and woman on the backdrop.

Each panelist spoke for 20 minutes, and Carol covered the basics of copyright and fair use by focusing on how copyright is created, the exclusive rights of the copyright owner, work for hire, and the importance of registration. She showed images of Patrick Cariou's photographs from *Yes Rasta* and the appropriated images in Richard Prince's paintings, the subject of the *Cariou v. Prince* lawsuit, to illustrate the application of the fair use factors. Then she applied the legal basics to the BAM hypothetical and advised as to how the basic deal should be revised.

Richard Altman, who litigated at least two of the landmark Visual Artists Rights Act (VARA) cases, told the stories of important moral rights cases and showed a wonderful clip of the sculptural installation which was the subject of *Carter v. Helmsley-Spear*.[1] He shared the story of the Soho Wall case,[2] where artist Forrest Myers had been commissioned to erect projections on the wall of a building at Houston and Broadway. Subsequently, when the owner of the landmarked building wanted to remove the sculpture to use the wall for advertising, the City Landmarks Preservation Commission refused to permit it. Three-way

litigation then ensued among the City, the owner and Myers, who engaged Richard to defend his rights under VARA. He then described "the nasty legal battle" where ultimately the work was restored to the building, with the owner obtaining a small portion of the lower wall for advertising revenue. Richard pointed out, as the Tilted Arc (Richard Serra) case illustrated, that when art conflicts with real estate in the U.S., art usually loses. He then described the *Carter* case, in which ultimately the court found the installation to be a work for hire (and thus not protected by VARA) despite the fact that the artists had a

prior agreement that they alone held the copyright in the work (a much criticized decision). Richard also added his personal perspective. Several years later when the work had still not been torn down, he served on a panel where one of the lawyers for Helmsley-Spear said the work was not torn down for years despite the legal win. Richard said he was surprised that it had not been torn down, and the lawyer told Richard that the case was fought to prove a point—that artists cannot dictate what goes into their buildings.

Megan Maxwell then talked about contracts in general, typical agreements or lack thereof in the art world, and the artist

consignment statute, which benefits artists by protecting the proceeds of sales of art and protects the art from the claws of creditors. Megan pointed out that contracts express the understanding of the parties and that many artists and galleries do not have written agreements. She discussed the basic provisions that should be included in artist gallery agreements and further described a gallery's fiduciary obligations to the artist.

The panel concluded with robust Q & A. The artists had many good questions. Further, Daniel Braun, a new EASL member, asked an interesting question about the legal implications of street art. Many stayed to speak individually with the panelists and to enjoy the refreshments.

Endnotes

1. *Carter v. Helmsley-Spear*, 71 F.3d 77 (2d Cir. 1995), *cert. den.*, 517 U.S. 1208 (1996).
2. *Board of Managers of Soho Int'l Arts Condominium v. City of New York*, 2005 U.S. Dist. LEXIS 9139 (S.D.N.Y. May 13, 2005) (decision after bench trial), 2004 U.S. Dist. LEXIS 17807 (S.D.N.Y. Sept. 8, 2004) (summary judgment decision) and 2003 U.S. Dist. LEXIS 13201 (S.D.N.Y., July 29, 2003).

The New York State Bar Association
Entertainment, Arts and Sports Law Section

Law Student Initiative Writing Contest

Congratulations to LSI winners:

DANIELLE CLOUT, of St. John's University School of Law, for her article entitled:
BRINGING BROADCAST TELEVISION TO THE INTERNET: AEREO'S LEGAL CHALLENGES

and

PAIGE DOWDAKIN, of the University of Illinois College of Law, for her article entitled:
DEFENSE WINS THE GAME: AN ANALYSIS OF UNIVERSITY LIABILITY EXPOSURE IN CLUB SPORTS

The Entertainment, Arts and Sports Law (EASL) Section of the New York State Bar Association offers an initiative giving law students a chance to publish articles both in the *EASL Journal* as well as on the EASL Web site. The Initiative is designed to bridge the gap between students and the entertainment, arts and sports law communities and shed light on students' diverse perspectives in areas of practice of mutual interest to students and Section member practitioners.

Law school students who are interested in entertainment, art and / or sports law and who are members of the EASL Section are invited to submit articles. This Initiative is unique, as it grants students the opportunity to be ***published and gain exposure*** in these highly competitive areas of practice. The *EASL Journal* is among the profession's foremost law journals. Both it and the Web site have wide national distribution.

Requirements

- **Eligibility**: Open to all full-time and part-time J.D. candidates who are EASL Section members.
- **Form**: Include complete contact information; name, mailing address, law school, phone number and email address. There is no length requirement. Any notes must be in *Bluebook* endnote form. An author's blurb must also be included.
- **Deadline**: Submissions must be received by **Friday, September 28, 2012**
- **Submissions**: Articles must be submitted via a Word email attachment to eheckeresq@yahoo.com.

Topics

Each student may write on the subject matter of his / her choice, so long as it is unique to the entertainment, art and sports law fields.

Judging

Submissions will be judged on the basis of quality of writing, originality and thoroughness.

Winning submissions will be published in the *EASL Journal*. All winners will receive complimentary memberships to the EASL Section for the following year. In addition, the winning entrants will be featured in the *EASL Journal* and on our Web site.

The Phil Cowan Memorial/BMI Scholarship

Law students, take note of this publishing and scholarship opportunity: The Entertainment, Arts and Sports Law Section of the New York State Bar Association (EASL), in partnership with BMI, the world's largest music performing rights organization, has established the Phil Cowan Memorial / BMI Scholarship! Created in memory of Cowan, an esteemed entertainment lawyer and a former Chair of EASL, the Phil Cowan Memorial / BMI Scholarship fund offers *up to two awards of $2,500 each on an annual basis* in Phil Cowan's memory to a law student who is committed to a practice concentrating in one or more areas of entertainment, art or sports law.

The Phil Cowan Memorial / BMI Scholarship has been in effect since 2005. It is awarded each year at EASL's Annual Meeting in January in New York City.

The Competition

Each Scholarship candidate must write an original paper on any legal issue of current interest in the area of entertainment, art or sports law.

The paper should be twelve to fifteen pages in length (including *Bluebook* form footnotes), double-spaced and submitted in Microsoft Word format. PAPERS LONGER THAN 15 PAGES TOTAL WILL NOT BE CONSIDERED. The cover page (*not* part of the page count) should contain the title of the paper, the student's name, school, class year, telephone number and email address. The first page of the actual paper should contain only the title at the top, immediately followed by the body of text. **The name of the author or any other identifying information must not appear anywhere other than on the cover page.** All papers should be submitted to designated faculty members of each respective law school. All law schools will screen the papers and submit the three best to EASL's Phil Cowan Memorial / BMI Scholarship Committee. The Committee will read the papers submitted and will select the Scholarship recipient(s).

Eligibility

The Competition is open to all students attending eligible law schools. "Eligible" law schools mean all accredited law schools within New York State, along with Rutgers University Law School and Seton Hall Law School in New Jersey, and up to 10 other accredited law schools throughout the country to be selected, at the Committee's discretion, on a rotating basis.

Free Membership to EASL

***All students* submitting *a paper for consideration will immediately and automatically be offered a* free membership in EASL (with all the benefits of an EASL member) for a one-year period.**

Yearly Deadlines

December 12th: Law School Faculty liaison submits 3 best papers to the EASL / BMI Scholarship Committee.

January 15th: EASL / BMI Scholarship Committee will determine the winner(s).

The winner will be announced, and the Scholarship(s) awarded, at EASL's January Annual Meeting.

Prerogatives of EASL/BMI's Scholarship Committee

The Scholarship Committee is composed of the current Chair of EASL, all former EASL Chairs who are still active in the Section, all Section District Representatives, and any other interested member of the EASL Executive Committee. *Each winning paper will be published in the* EASL Journal *and will be made available to EASL members on the EASL website*. BMI reserves the right to post each winning paper on the BMI website, and to distribute copies of each winning paper in all media. *The Scholarship Committee is willing to waive the right of first publication* so that students may simultaneously submit their papers to law journals or other school publications. *In addition, papers previously submitted and published in law journals or other school publications are also eligible for submission to The Scholarship Committee.* The Scholarship Committee reserves the right to submit all papers it receives to the *EASL Journal* for publication and to the EASL website. The Scholarship Committee also reserves the right to award only one Scholarship or no Scholarship if it determines, in any given year that, respectively, only one paper, or no paper, is sufficiently meritorious. All rights of dissemination of the papers by each of EASL and BMI are non-exclusive.

Payment of Monies

Payment of Scholarship funds will be made by EASL / BMI directly to the law school of the winner, to be credited against the winner's account.

About BMI

BMI is an American performing rights organization that represents approximately 350,000 songwriters, composers and music publishers in all genres of music. The non-profit-making company, founded in 1940, collects license fees on behalf of those American creators it represents, as well as thousands of creators from around the world who chose BMI for representation in the United

States. The license fees BMI collects for the "public performances" of its repertoire of approximately 4.5 million compositions are then distributed as royalties to BMI-member writers, composers and copyright holders.

About the New York State Bar Association / EASL

The 77,000-member New York State Bar Association is the official statewide organization of lawyers in New York and the largest voluntary state bar association in the nation. Founded in 1876, NYSBA programs and activities have continuously served the public and improved the justice system for more than 125 years.

The more than 1,600 members of the Entertainment, Arts and Sports Law Section of the NYSBA represent varied interests, including headline stories, matters debated in Congress, and issues ruled upon by the courts today. The EASL Section provides substantive case law, forums for discussion, debate and information-sharing, pro bono opportunities, and access to unique resources including its popular publication, the *EASL Journal*.

NYSBA President's Section Diversity Challenge

EASL Diversity Committee—First Place Winner

Leadership Conference Luncheon—May 10, 2012

Judith B. Prowda

I am honored to accept the Section Diversity Champion Award on behalf of the Entertainment, Arts and Sports Law (EASL) Section.

It was a privilege to serve as EASL Chair and to form such a dynamic Diversity Committee during my tenure. My heartfelt gratitude goes to Diversity Committee Co-Chairs Anne Atkinson and Cheryl Davis, and my fellow Committee members Rosemarie Tully, Rakhi Bahadkar, Rich Boyd, Nyasha Foy, Elissa Hecker, Asia Sanders, Jessica Thaler and Rob Thony for your hard work and dedication.

During the past year, we organized a number of outstanding events, including a joint CLE program with the Black Entertainment and Sports Lawyers Association (BESLA) and Metropolitan Black Bar Association (BWEL) on reality TV. We have also established a Mentoring Program for diverse lawyers, 2L law students and those wishing to transition to EASL areas of practice.

We have more exciting programs in the works, so stay tuned!

Working Together, Everything Fits

NYSBA

Contract Issues Relating to Electronic Rights in Publishing

By Jonathan I. Lyons and Jeff Kleinman

Introduction

With the emergence of eBooks as a viable product in the marketplace, the publishing ecosystem has undergone—and continues to undergo—significant change. Inevitably, this change has resulted in new contractual issues between authors and publishers, particularly regarding the exploitation of the authors' content in electronic format.

This article will first provide some basic, sample definitions of the different types of electronic rights that typically arise in new publishing agreements, some key issues that arise with regard to each of these rights, and a brief summary of other options that are available to authors if negotiations break down between the parties.

The article will not address the status of older publishing agreements, where there might be a lack of clarity as to whether electronic rights were granted, but recommend familiarity with *Random House, Inc. v. Rosetta Books LLC*,[1] as well as recent news coverage and litigation on this issue as it relates to such titles as *Julie of the Wolves* by Jean Craighead George and *Portnoy's Complaint* by Philip Roth.[2]

Finally, it should be noted that as author advocates, this article skews in favor of writers and the protection of their copyright interests.

Sample Definitions

There is no uniform definition of electronic rights among publishers in their various publishing agreements, but for the ease of analysis, below are three sample definitions. Please note that some publishers lump all three types of electronic rights described below into a single definition, while others combine two of the rights while providing a separate definition for the third. Further, keep in mind that the actual title (e.g., "electronic book," "electronic text," or "digital version") of the right described varies among publishers as well, even when the description of the right is the same.

> **"Electronic Book Rights"** shall mean the exclusive right to publish, and to authorize others to publish, the verbatim text of the Work in whole or in part (such abridgements and condensations subject to Author's prior approval, not to be unreasonably withheld or delayed), in visual form for reading, by any electronic, electromagnetic or other means of storage, retrieval, distribution or transmission now known or hereafter devised, but without any additions or changes, such as additional text, sounds, images, enhancements, animation, or interactivity.

This definition describes the eBook most commonly created and read today—meaning that the eBook is a verbatim rendering of the printed version of the book. It provides for the author's approval over changes to the text, which is a point that is negotiated into most agreements by authors' agents and attorneys.

> **"Enhanced E-Book Rights"** shall mean the exclusive right to adapt and publish, and to authorize others to adapt and publish, the Work or any portion thereof for one or more "enhanced E-Books." As used herein, an "enhanced E-Book" shall mean an adaptation of the Work incorporating elements from sources other than the text of the Work including still photographs and illustrations, non-dramatic, light animation of the existing elements of the Work, sound and other text, for publication by any electronic, electromagnetic or other means of storage, retrieval, distribution or transmission now known or hereafter devised, provided, however, that if Motion Picture and Television Rights are not also granted to the Publisher by this Agreement, Enhanced E-Book Rights do not include the right to create and use dramatic versions of the Work in electronic media.

With the introduction of the iPad and other tablets, as well as continued refinement of eBook readers such as the Kindle and Nook, publishers are now able to add content (such as video, audio clips, hyperlinks) to a Work published in eBook form. While the line between an enhanced eBook and an "App" (defined below) is often difficult to determine, typically (at least as of the date of this writing) enhanced eBooks are sold in Apple's iBookstore, whereas Apps are sold through iTunes. In addition, enhanced eBooks usually have a lower degree of interactivity, animation, and overall sophistication than Apps do, and most often are less expensive to create.

Please note two points often negotiated between agents and publishers regarding this exploitation: approval over the changes / additions made to the work, and language protecting dramatic rights to the Work (see below, under Multimedia / App Factors). Examples of enhanced eBooks include *Alice in Wonderland for the iPad,* created by Atomic Antelope; *Flipped* by Wendelin van Draanenen; or *Jacqueline Kennedy: Historic Conversations on Life with John F. Kennedy*.

> **"Multimedia/App Rights"** shall mean the exclusive right to adapt and publish, and to authorize others to adapt and

publish the Work or any portion thereof for one or more "apps." As used herein, an "app" shall mean an adaptation of the Work and shall include the right to create, and to incorporate into those works, text, dialogue, sounds, music, artwork, video, animation, moving images, interactive elements, and other matter whether or not taken or derived from the Work or from the plot elements, characters, fanciful places, situations, facts, ideas and events portrayed in the Work, provided, however, that if Motion Picture and Television Rights are not also granted to the Publisher by this Agreement, Multimedia / App Rights do not include the right to create and use dramatic versions of the Work in electronic media.

As noted above, an App typically involves a higher level of sophistication than what is seen in eBooks and enhanced eBooks. Apps usually have a higher level of interactivity and animation and are sold in iTunes or Android App stores. In addition, an App runs as a stand-alone program on top of an operating system, while an eBook or enhanced eBook requires another program to operate (such as the Kindle Reader). A good example of an early App is Mark Bittman's *How to Cook Everything*, which takes the recipes of a cookbook and adds a variety of interactive elements, like timers, shopping lists, and customization to the basic recipe.

Some Key Contract Issues

Keep in mind that the electronic world is constantly evolving, so the issues discussed below are both shifting and a continued source of controversy among authors, agents, and publishers.

The Royalty Rate. At present, the most common royalty rate among the "Big Six" major trade publishers (Random House, Simon & Schuster, HarperCollins, Penguin Group, Hachette, and Macmillan) is 25% of the net amount that the publisher receives. While there is general disagreement over what the appropriate royalty rate for authors should be, in the context of contract negotiations, a more contentious point is how and when—or whether—this rate may be renegotiated in the future. Given how rapidly the digital landscape is evolving, flexibility should be a hallmark of any contract in this area. Below is standard language often found in publishing contracts, with some variation:

- On sales of eBook editions of the Work, the royalty shall be 25% of the net amount actually received from such sales. However, should marketplace conditions change such that said royalty rate is below prevailing market rates, Publisher agrees to renegotiate the royalty rate at Author's request at any time following three years after first publication of the eBook edition.

As different models of electronic royalty rates emerge, there is some debate as to the proper calculation of these royalty rates. The definition above is used for individual sales of individual eBooks, but when books are bundled together for sale (e.g., under a subscription model), other language has been developed to account for this possibility:

- If any amount received by the Publisher is attributable to the use in electronic media of the Work and any other works, the Publisher will determine the portion of such amount that is attributable to the Work as follows: (1) if the Publisher receives from a third party an allocation of the amount it receives among the works used, the Publisher will utilize such allocation; and (2) in the absence of any such third-party allocation, the Publisher may utilize a determination of end user access to or unique page views of the Work (in each case including an estimate determined by sampling) or the ratio of the list price of the Work to the total of the list prices of all of the works to which the amount is attributable or, if none of the foregoing methods is applicable, the Publisher may utilize any other method of allocation it determines in good faith to be equitable. The net proceeds received by Publisher from the sale or license of such rights shall be divided between Author and Publisher equally.

Of course, all of the variables listed above—such as having the author and publisher equally split the received proceeds—may be a source of future discussion and disagreement. It should be noted that in general, the Author's contribution to the final consumer product remains virtually unchanged from what it was 10 (or even 100) years ago. However, the publisher's contribution has changed significantly, as has the publisher's cost structure, resulting in publishers receiving a higher share of the proceeds than in years past, despite the lack of change in royalty rates and price points for the product. As a result, it is not unreasonable for publishers to expect continued pressure from author advocates to increase the royalty rates and other terms so that the authors' share reverts to the average amount historically received.

Competitive Works. Apart from royalty rates, several other contractual issues regularly present issues in publishing contracts. One of the most problematic becomes in what territories the eBook can be published, since publication on the Internet without fairly sophisticated technological restrictions is by definition a worldwide distribution.

The following language is relatively standard; it is important that all parties make an effort to keep to the "Exclusive Territory" defined in the agreement, because on a practical level many situations have arisen where a publisher (or an author) exceeded the boundaries of its license by distributing to territories outside the scope of the contract:

> The Author will not authorize or arrange for the publication, distribution or sale in the Exclusive Territory, otherwise than by the Publisher, of any work by the Author (or anyone who receives an author's credit on the Work) that will directly compete with the Work or clearly diminish the value of any rights granted to the Publisher by this Agreement where such publication, distribution or sale will take place at any time during the term of this Agreement.

Use of Content with Reserved Rights. Another problem that frequently occurs is when an author wants to create an App and there is already a potentially competitive eBook available. For instance, the text of the author's cookbook is uploaded as "The eBook Grill Cookbook"—it contains the verbatim text, with perhaps the photos of the print book now available on a Kindle or Nook, for $2.99. The author wants to create an App—"The Grilling App"—utilizing the same recipes, but now reorganizing the content, providing interactive features like video (to show the vegetables sizzling) or timers, for, say, $3.99. A publisher may be worried that an App, with many more features than the eBook, will undercut sales of the eBook, so many publishers resort to the following kind of language to account for this possibility:

- In connection with Author's reserved Multimedia/App Rights, no App may contain text of the Work that exceeds in the aggregate 7,500 words in length or ten percent (10%) of the Work, whichever is less.

Author advocates try to not have this kind of language in the contract, or at least limit it, in order to allow the author the greatest flexibility in the future.

Multimedia/App Factors

Unlike print books, Apps may have many different types of intellectual property folded into them. Some have been listed above, but there are hundreds more—interactive GPS or other location-based services, social networking components, and so forth. Though the author has created the basic text, such text often serves as a roadmap to determine what other assets should logically be folded in, the question soon arises: who pays to create those assets and update the assets as necessary? Authors may not have the funds to do so, so a variety of models have been developed to deal with the different scenarios that arise. What follows here is an overview of points to keep in mind while working through a negotiation for multimedia/App rights.

Revenue Share. In most cases, Apps are created by App developers as some form of a license. Revenues are shared between the App developer, the author (and potentially the book/eBook publisher, if the publisher controls these rights). The economics between the author and App developer can vary, and often an App developer's costs will need to be recouped before the author receives any proceeds. If the App is developed in-house by the licensee of print rights, any royalty accruing to the Author should be mutually agreed upon when such multimedia product is contemplated, as the market is still evolving, and coming to agreement in the context of an initial contract negotiation is likely to be difficult, if not impossible.

Who Provides/Creates Additional Content. If the author provides additional material/content, then payment for such added content should be negotiated between the parties at the time the product or service is contemplated. In addition, if the author and publisher of the print book (or a third party) jointly prepare the additional content, payment for such work by the author should be negotiated between the parties at the time the product or service is contemplated.

Who Provides/Creates Updated Content. Apps are often and regularly updated with new features, new compatibilities, new promotional options, and so forth. It is important to be sure that any agreement addresses this possibility. At a minimum, the software developer should promise to update all technological issues on a very timely basis, but it is also important to determine what happens when the author wants to make an update—add new grilling recipes, in the above example, or perhaps create a special "Grilling for the 4th of July" module. It is essential to determine at the time the parties contract who will create, and pay for, each of the kind of update contemplated by the parties.

Who Owns the Content. Unless such additional content is provided solely by a third party on a licensed basis, the Author should own such content and be able to use it for other uses. What will often happen, however, is that each party owns the content that party provided—the author owns the text; the videographer, the video footage; the software developer, the underlying software and potentially the App's organization; and so on.

Approval over New Content. The author should have approval over new content provided by the publisher or any third party, not to be unreasonably withheld.

Liability for Content. The author should not be liable for any new content not provided by the author.

Limitation on Grant of Rights. The grant should be clearly limited to ensure that it does not include other derivative works, such as video games. In addition, the granting of this right must specifically not include dramatic/film rights. All parties should work in good faith to resolve any conflicts that might arise between the author and film/TV producers with regard to the sale of dramatic/film rights. Of key importance: if no accommodation can be reached, the licensor (for example, the publisher or the App developer) should revert Multimedia/App Rights to the author.

eBook Options

It is also important to mention other viable options for authors for the exploitation of the electronic rights to their works besides with traditional publishers. eBooks (at least those published by traditional print publishers) are usually available via retailers (such as Amazon, B&N, Sony, and a variety of eBook websites). Today authors can bypass traditional publishers and place their works with digital retailers via one of the following three options:

Self-Publishing. Some eBook authors want full control of the publishing process—the marketing, the book's look (including cover), as well as the all-important pricing, which some authors want to change very frequently. Authors can now go directly to the biggest retailers (Amazon, B&N, and Apple) and in a few moments upload their book and take full control of their publishing experience. Many authors, however, find that their books are lost among the thousands of other self-published books, and others are not willing to take the time for the marketing commitment that this type of self-publishing needs.

Digital Distributors. Distributors make sure that retailers put the eBook up for sale in a reasonable time frame, at the price point the author desires. They may also aggregate the sales data from all retailers, so the author can review a single dashboard, and make a single change that is reflected among all the retailers (as opposed to logging into Amazon, making the change, logging into Apple, making the change, and so forth). A few examples include Argo Navis, INScribe, MintRight, and BookBaby.

ePublishers. These publishers are a new breed that create only eBooks, and may also market and publicize the eBook like traditional publishers. They may have more generous eBook royalty splits than traditional publishers, as well as online-specific expertise that may allow the eBook to reach a wider audience than an author can achieve on his or her own. A few examples include Open Road, Untreed Reads, and Astor+Blue.

Conclusion

The eBook world is a brave new frontier, with options abound, and of course complications as well. As the landscape shifts, it will be essential to carefully and thoroughly address the exploitation of electronic rights contractually, and in a manner that provides flexibility in order to respond to market and technological changes.

Endnotes

1. *Random House, Inc. v. Rosetta Books LLC*, 283 F.3d 490 (2002).
2. For *Portnoy's Complaint*: Julie Bosman, *Amazon E-Book Venture Stirs Fuss in Publishing*, N.Y. Times (Jul. 22, 2010), http://www.nytimes.com/2010/07/23/business/media/23author.html?_r=2 and Peter Ginna, *Andrew Wylie vs Random House: The Thrilla in Manila (Folders)*, HuffPost Books (Aug. 27, 2010, 01:43 PM), http://www.huffingtonpost.com/peter-ginna/andrew-wylie-vs-random-ho_b_695110.html. For *Julie of the Wolves: HarperCollins Publishers LLC v. Open Road Integrated Media, LLP*, No. 11 Civ. 9499 (S.D.N.Y. Dec. 23, 2011), and *HarperCollins Publishers LLC v. Open Road Integrated Media, LLP*, No. 11 Civ. 9499 (NRB) (S.D.N.Y. Feb. 16, 2012) (Answer and Affirmative Defenses to Complaint).

Jeff Kleinman is a graduate of the Case Western Reserve School of Law, and founding partner of Folio Literary Management, LLC, where he focuses on book club fiction and narrative nonfiction. He can be reached at jeff@foliolit.com.

Jonathan Lyons is an attorney focusing on publishing law, copyright, and other intellectual property law matters. He is also a literary agent and Executive Director of Subsidiary Rights at Folio Literary Management, LLC. Jonathan can be reached at jonathan@foliolit.com.

EBook Antitrust Suits Against Apple and Book Publishers

By Joel L. Hecker

Introduction

On April 11, 2012, the United States of America, through the U.S. Department of Justice (the DOJ) commenced litigation against five of the six major book publishers in the United States as well as Apple, Inc.[1] The complaint alleged that the defendants conspired to raise the price of electronic books over a period of time in response to Amazon's practice of selling eBooks for $9.99. Simultaneously with the filing, the DOJ also filed a Consent Decree in connection with its settlement of the action with three of the five publishers.

Fifteen State Attorney Generals brought similar suits against the defendants on behalf of the citizens of their states seeking restitution for overcharges to consumers as a result of the alleged price fixing scheme. Some of the states have already settled portions of their suits, providing for significant restitution for consumers. In addition, a consumers' class action lawsuit was commenced against all of these defendants. Subsequent to the filing of these suits, they were all consolidated before Judge Cote in the United States District Court for the Southern District of New York.[2] The defendants in the consumer class action litigation immediately moved to dismiss that case, on the theory that the acts of the defendants actually promoted competition, rather than stifling it. Judge Cote disagreed and denied the motion on May 15, 2012, holding that there were ample allegations in the complaint to support the claims.

This article explores the background for these actions, the DOJ complaint and the proposed DOJ Consent Decree.

The Parties Involved

The plaintiff in this action is the United States of America, represented by the DOJ. The defendants are Apple, Inc. (Apple); Hachette Book Group, Inc. (Hachette); HarperCollins Publishers L.L.C. (HarperCollins); Verlagsgruppe Georg Von Holtzbrinck GMBH, Holtzbrinck Publishers, LLC d/b/a Macmillan (Macmillan); The Penguin Group, a Division of Pearson PLC, Penguin Group (USA), Inc. (Penguin); and Simon & Schuster, Inc. (Simon & Schuster). After extensive negotiations prior to the filing of the complaint, pre-arranged settlement was agreed to among the DOJ and Hachette, HarperCollins, and Simon & Schuster (collectively the Settling Defendants). Apple, Macmillan and Penguin refused to settle and the action will continue against them.

Summary of the Justice Department Claims

The Complaint alleges that the publisher defendants, concerned by Amazon.com, Inc. (Amazon)'s pricing of newly released and bestselling eBooks at $9.99 or less, agreed among themselves and with Apple to raise the retail prices of eBooks by taking control of eBook pricing from retailers. The effect of this agreement is to increase the price consumers pay for eBooks, end price competition among eBook retailers, constrain innovation among eBook retailers, and entrench incumbent publishers' favorable position in the sale and distribution of print books by slowing the migration from print books to eBooks. The complaint seeks injunctive relief to enjoin continuance and prevent recurrence of the violation.

Evidence of Conspiracy as Alleged in the Complaint

Until the alleged conspiracy took effect, publishers sold eBooks under a model that had prevailed for decades in the sale of print books, called the wholesale model. Under this model, publishers typically sold copies of each title to retailers at a discount off the list price. Retailers, who became the owner of these books, were free to determine at what price they would sell the books to consumers. Thus, publishers would recommend prices, but retailers could, and frequently did, compete for business at discounted prices, which obviously benefited consumers.

In 2007, Amazon launched its Kindle e-reader service which permitted consumers to read eBooks on the Kindle. Amazon offered a portion of its eBook catalogue, which primarily consisted of newly released and *New York Times* bestselling eBooks, for $9.99. To compete with Amazon, other eBook retailers felt they had to, and therefore often matched, this $9.99 price. As a result, alleges the DOJ, consumers benefited from Amazon's low prices.

The complaint alleges that the publisher defendants feared that this $9.99 price would lead over time to the erosion of hardcover book prices and a corresponding decline in revenue, and thus significantly threaten their long term profits. The complaint further alleges that executives of the publisher defendants met among themselves, assured each other that they had this common "$9.99 problem," and that this was a perceived threat to the publishing industry. At the same time, each publisher defendant feared that if it unilaterally attempted to challenge Amazon, Amazon would resist and such publishing defendant would lose its market share. Accordingly, the publisher defendants agreed to act collectively to raise retail eBook prices.

Apple's entry into the eBook business, through its decision to sell eBooks via its new iBookstore in conjunction with its new iPad device, changed the entire situation. The publisher defendants and Apple realized that they could work together to counter the "$9.99 problem." They eventually began to consider and adopted what is now called the "agency model," whereby the publishers would set the prices of eBooks sold, Apple would take a 30% commission as the selling agent, and the retailers would be prohibited from discounting the list price for the eBooks.

Through frequent in-person meetings, phone calls, and electronic communications, the defendants assured each other of their mutual intent to reach an agreement. As a result, the publisher defendants each entered into an agreement with Apple (the "Apple Agency Agreements") within a three-day span in January 2010. The next day, Apple announced its iPad at a launch event.

The Apple Agency Agreement contained two primary features to enable the publisher defendants to take control of pricing and raise eBook retail prices:

First, Apple insisted on including a Most Favored Nation clause (MFN) that required each publisher to guarantee that no other retailer could undersell Apple. This not only protected Apple from having to compete on price, it also required the publisher defendants to prohibit other eBook retailers from being able to discount prices, even if such discount would have come out of the retailer's own profit margins (otherwise, the MFN would kick in, causing Apple to drop its prices, thereby reducing revenues to the publisher defendants, and resulting in the defeat of the very purpose of the conspiracy, which was to raise retail prices across the board). Second, the Apple Agency Agreement contained pricing tiers which almost uniformly set eBook prices to the maximum price levels allowed by each tier (for example, eBooks would be priced at $12.99, $14.99 or $16.99, depending upon the range of the hard cover list price for the same book).

Upon execution of the Apple Agency Agreements and the launch of the iPad, the publisher defendants all then acted quickly to "complete the scheme" by imposing agency agreements on all their other retailers. As a direct result, those retailers lost their ability to compete on price, including offering eBooks for sale at $9.99.

Amazon, after initial attempts to resist the higher eBook prices, capitulated and publicly announced that it had no choice but to accept the agency model. As a result, alleges the DOJ, retail price competition on the eBook had been eliminated and the retail price of eBooks had increased, to the detriment of consumers.

Requirements for a Consent Decree

The Settling Defendants entered into a Consent Decree with the DOJ, which provides for a final judgment being entered against them once the provisions of the Antitrust Procedures and Penalties Act (the APPA) are complied with. The APPA requires that the Proposed Final Judgment and Competitive Impact Statement be published in the Federal Register and in certain newspapers at least 60 days prior to entry of the Proposed Final Judgment. This period is to inform members of the public that they may submit comments about the Proposed Final Judgment, which will also be published, along with the DOJ's responses. At the end of the applicable time periods the DOJ will file with the court these comments and the DOJ's responses and either ask the court to enter the Final Judgment (as revised if appropriate) or withdraw its consent, all as provided in the proposed Stipulation and Order.[3]

In sum, this procedure permits public response to the terms of the proposed Final Judgment and the DOJ and the court to consider non-party input into the process.

Summary of Actual Consent Decree

The Consent Decree, entered into by the DOJ and Hachette, HarperCollins and Simon & Schuster, provides that the court may enter the Proposed Final Judgment after compliance with the APPA procedures set forth above.[4] The parties stipulated that a final judgment would be entered. The following are some of the more pertinent provisions:

1. The Settling Defendants would immediately terminate their Apple Agency Agreements as well as their contracts with eBook retailers that contain either a restriction on the eBook retailer's ability to set the retail price of any eBook or an MFN clause. This would not prohibit eBook retailers, including Apple, from negotiating new contracts with any Settling Defendant. It would, however, prohibit the Settling Defendants, for at least two years, from including prohibitions on retailer discounting in any new agreements with them. Additionally, any retailer would be able to stagger the termination dates of its contracts with the Settling Defendants to ensure that it would not be required to negotiate with them all at the same time. This would inhibit and avoid joint conduct which could lead to a return to the conspiratorial conduct.
2. Each Settling Defendant would be required to notify the DOJ before forming or modifying any joint venture between it and another publisher in relation to eBooks. This will permit the DOJ to evaluate any potential anti-competitive effects of joint activity at a sufficiently early stage to presumably prevent harm to competition.
3. Settling Defendants would be required to provide the DOJ with each eBook agreement it enters into

with any eBook retailer on or after January 1, 2012 on a quarterly basis.

4. The Settling Defendants are prohibited from enforcing existing agreements with or entering into new agreements containing a ban on retailer discounting or providing for MFNs. The DOJ presumes that with these provisions most retailers will soon be able to discount eBook prices in order to compete for market share. In an interesting disclosure, the DOJ indicates its belief that this two-year period is sufficient to allow competition to return to the market because, in light of current industry dynamics, including rapid innovation, the eBook world will be drastically changed during that time.

5. The Settling Defendants are broadly prohibited from agreeing with each other or any other eBook publishers from raising or setting eBook prices. In effect, this bans the kind of agreements that led to the anticompetitive increase in eBook prices.

6. The Settling Defendants are prohibited from directly or indirectly conveying confidential or competitively sensitive information to any other eBook publisher. This would eliminate conduct that led directly to the collusive agreement alleged in the complaint. This ban applies equally well to the parent companies and their officers.

7. The Settling Defendants will be permitted to compensate eBook retailers for services that the retailers provide to publishers or consumers and help promote or sell books. For example, they can support brick and mortar retailers by directly paying for promotion and marketing efforts in the retailers' stores.

8. The Settling Defendants will have the right to enter into one year agency agreements that would, in effect, prevent eBook retailers from cumulatively selling that Settling Defendant's eBooks at a loss over the period of the contract. This would, for example, permit a "buy one, get one free" offer so long as the aggregate amount of discounts or other promotions did not exceed the retailer's full commission over that period. In other words, this clause permits a Settling Defendant from preventing a retailer from selling its entire catalogue at a sustained loss.

Conclusion

This settlement, which was the result of discussions between the DOJ and defendants that lasted months, would appear to be a significant benefit to consumers, at least initially, as a result of the decrease in pricing structures. However, only time will tell whether Amazon will be able to reassert its dominant position in the e-market industry (which at one point accounted for around 90% of sales). After all, Amazon certainly would have the ability to unilaterally raise its price from $9.99 in the future and thereby set a new minimum standard within the industry. The DOJ seems to be betting on the fact that consumer demand will result in competitive pricing and that technological advances will supersede the existing eBook models, thereby altering or diminishing Amazon's dominant eBook position. Whether this competitive eBook pricing scheme will materially impact upon the publishers' ability to maintain traditional prices for hard cover or trade books remains to be seen.

Endnotes

1. *USA v. Apple Inc.*, No. 12-CV-2826 (S.D.N.Y. filed Apr. 11 2012). The case has been assigned to Judge Denise Cote.
2. The consolidated case is now before Judge Cote as *In re: Electronic Books Antitrust Litigation*, No. 11-MD-2293 (S.D.N.Y.).
3. The Competitive Impact Statement pursuant to the APAA, Section 2(b), was filed on April 11, 2012 as docket No. Document 5.
4. The Stipulation as to Final Judgment and the Consent Decree was filed on April 11, 2012 as docket No. Document 4.

Joel L. Hecker, Of Counsel to Russo & Burke, 600 Third Avenue, New York, NY 10016, practices in every aspect of photography and visual arts law, as well as copyright, licensing, publishing, contracts, privacy rights, and other intellectual property issues. He acts as general counsel to the hundreds of professional photographers, stock photo agencies, graphic artists and other photography and content-related businesses he represents nationwide and abroad. He also lectures and writes extensively on issues of concern to these industries, including his monthly column You And The Law in *PhotoStockNotes*. He is past Chair of the Copyright and Literary Property Committee of the Association of the Bar of the City of New York, a longtime member and past Trustee of the Copyright Society of the U.S.A., and an EASL member. He has also been designated as a New York Super Lawyer. He can be reached at (212) 557-9600, fax (212) 557-9610, website www.RussoandBurke.com, or via email: HeckerEsq@aol.com. Specific references to his articles and lectures may be located through internet search engines under the keywords: "Joel L. Hecker."

Mobile App Data Trap: Potential Causes of Action in the Web's Newest Wild West

By Jason Emile Carlie

I. Introduction

Mobile electronic devices (smartphones and tablet computers) play a tremendous role in modern life. Not only do they allow us to verbally communicate, but we also use them to electronically communicate via email, text message, or tweet. Twenty-five percent of Americans now do most of their web surfing on their smartphones rather than on computers.[1] Most smartphones in the United States run on operating systems made by three manufacturers: Apple (iOS), Google (Android), or Research In Motion (BlackBerry OS). As of May, their respective market shares were: 23% (iOS), 59% (Android), and 6.4% (BlackBerry OS), with the rest comprised of other operating environments Symbian, Linux, and Windows Phone 7.[2] Domination is reversed in the tablet arena. By the end of the first quarter of 2012, Apple dominated with a 61.4% share of the market, compared to Android's 31.9%.[3] Mobile devices manage our schedules, play music, allow us to edit documents, and capture memories by recording video and snapping photographs. In fact, as of December 2011, 27% of all photographs in the United States were taken with a smartphone.[4] Camera quality steadily improves with each new model, and the cellular and wireless Internet (wi-fi) connectivity make it easy for users to quickly upload photos and share memories with others via applications (apps) such as Instagram, Picnik, Hipster, Cinemagram, Piictu, Pixable, Hipstamatic, Twitter, Facebook, or Flickr.

On February 28, 2012, the *New York Times* Bits Blog ran an article highlighting the vulnerability of photographs stored on an Apple iPhone, iPad or iPod Touch whenever a user granted access to location information.[5] To illustrate, the *Times* recruited an unnamed developer to create a test application that siphoned photos and location information from an iPhone. The test app, "Photo Spy," when opened, requested access to location data only. However, when granted, the app pilfered photos and uploaded them, along with their location metadata, to a remote server.[6] Photo Spy was never submitted to the App Store.[7] At the time the article was written, the *Times* also noted that there was no concrete evidence that apps in Apple's App Store were "illicitly copying user photos."[8]

Days later, the *Times* reported that apps on smartphones running Android, Google's mobile operating system, do not need *any* permission to access a user's stored photos.[9] On Android, as long as an app can access the Internet, "it can copy those photos without any notice…."[10] According to a Google spokesman, the easy access to photographs was a "design choice related to the way early Android phones stored data," when users stored photos "on a removable memory card, which complicated the issue of photo access."[11]

This was alarming, considering that Android required apps to alert users when they wished to retrieve other forms of personal data—i.e., email, address book contacts, or a phone's location.[12] As with the Apple article,[13] the *Times* was unable to confirm whether any apps currently "available for Android devices" were, in fact, pilfering photos.[14] The articles did not mention RIM's BlackBerry, and as those *Times* articles were the inspiration for this article, the focus here will focus be on Apple's iOS and Google's Android.

Data mining by mobile apps is nothing new. Many of the trendiest smartphone apps for Apple and Android devices today, including Twitter, Foursquare, and Instagram, have gathered information stored in users' address books and stored them on their own computers, without warning or asking permission to do so.[15] Yelp, Gowalla, Hipster, and Foodspotting do this too.[16] The *New York Times* reported that Lookout, a mobile security company, "found that 11 percent of free applications in Apple's iTunes Store" could access users' address books.[17] The VentureBeat blog went a step further, reporting that even more have that ability.[18]

When did the inquiry into data mining start? There were two incidents. First, in December 2011, it was discovered that CarrierIQ, a mobile intelligence company, used its tracking software to record "keystrokes made, phone numbers dialed, text messages sent, and even encrypted Internet searches, on some 140 million smartphones."[19] More recently, a developer noticed that Path, a mobile social network, uploaded users' entire address books without their knowledge.[20] Path issued a *mea culpa*, promising to stop that and destroy the data it had already amassed.[21] Somehow, this behavior became an industry "best practice," and as new problems arose, the public whipped into a frenzy to put out the privacy fires that were inflamed.[22] The latest debacle over the photo privacy spurred Senator Charles Schumer to ask the Federal Trade Commission (FTC) to investigate Apple and Google.[23]

Further, with respect to the issue regarding photographs, the ability for apps to collect them is distressing, at the very least. Why? One word—metadata. Metadata, which is, simply, data about data—is embedded in every digital photograph.[24] There are three classes of metadata: technical, descriptive, and administrative.[25] Technical metadata tend to describe an image's technical characteristics, i.e.—its size, color profile, ISO speed, or other camera settings.[26] Descriptive metadata relate to an image's contents—i.e., captions, keywords, and most importantly in the context of photos taken with smartphones, the geographical coordinates of the place where they were taken.[27] Administrative metadata includes: "licensing or rights usage terms,…the identity of the creator, and contact information for the rights holder or licensor."[28] The type of metadata mobile phone cameras automatically generate depends on the age of the camera. "Newer mobile phones and cameras can…record your name, location (aka, a geotag)[,] date, [and] time,…and save it as EXIF metadata"—automatically.[29] EXIF metadata can also include copyright information, including the © symbol. While metadata makes it easy for a computer or phone to keep photos organized, if it is not removed before sharing the photo, the personally identifying data is shared as well.[30] An app developer who has pilfered photos from a smartphone or other mobile device, with striking precision can craft an extremely intimate picture of someone's life just by extracting the metadata from the pictures.

Once an app retrieves data from an iOS- or Android-powered smartphone, and uploads it to its own server, Apple and Google are powerless to monitor or limit the use of that data.[31] Therefore, in the case of iOS-powered smartphones, the major implication is that apps that, hypothetically, have only asked for authorization to retrieve location information, can exceed the scope of that permission.[32] This violates Apple's published terms that expressly forbid such acts.[33] The consent requested, then, is either a blatant misrepresentation or an accident. Android devices, however, do not face that permission problem because, in theory, that operating system gives apps free rein through photographs. Google still faces a quandary, however. The reality of photo privacy on Android devices is at odds with Google's security guide for Android developers, which states, "'[a] central design point of the Android security architecture is that no application, by default, has permission to perform any operations that would adversely impact other applications…" including "reading or writing the user's private data."[34] In Google's case, not only is security an issue, it also faces potential liability for false advertising.

Let us hypothetically assume that a New York consumer has installed a fictitious app called SampleTravel, which helps users navigate public transportation systems in major urban areas in the United States. When she installed the app, unlike many other people, she read all the terms of use for the software, and clicked "ok," to install it. The terms of use never mentioned that it may collect data extraneous to what it needs to properly run, as in her smartphone's stored photos or her address book. The app asks her to authorize location data, and since it is an app that plans travel, she agrees. One day, she visits the full computer SampleTravel website and finds that some of the photos that she had taken with and stored on her smartphone, and had not uploaded anywhere else, were used in advertisements on the site of happy users of the SampleTravel app. She tells some of her friends, and learns from them that they have received e-mail solicitations from the company inviting them download the app, citing the hypothetical consumer as the referral source. Her photos and address book, as described in the *New York Times* articles, have been siphoned. There are six players in this process: consumers (Consumers), software application developers (App Developers), the operating system manufacturers, Apple and Google (OS Manufacturers), who are also software developers, but, for the purposes of this article, will be considered separately, Government (state and federal), and Internet Service Providers (ISPs). What laws, if any, are implicated by data siphoning by App Developers?

Part II of this article surveys various potential causes of action a class of consumers would have against various parties involved in data mining, and focuses solely on claims consumers might first consider asserting against App Developers and OS Manufacturers. It does not discuss actions government can take, nor does it address any procedural hurdles. It does not attack the nuances of each cause of action; if it did, the article would morph into a treatise. The invasion of privacy and deceptive practices that consumers experience at the hands of App Developers seem obvious; their software either asks to take one type of information, and take much more, or simply takes without asking at all. OS Manufacturers, though, may also find themselves in hot water for false advertising. They have advertised to Consumers security and privacy features of their operating environments, and have published policies for App Developers to follow in designing software. They also claim to vet apps before allowing them to be sold in their online marketplaces, yet the extent of that vetting is unknown.[35] Further, what about breach of contract issues? There are terms of agreement, also known as clickwrap licenses, drafted by software makers that bind Consumers to the App Developer's terms when the Consumers click "Agree" when installing an app. Federal and State statutes, as well as New York state common law, may offer opportunities to redress privacy violations and prod mobile software developers (of both applications and operating systems) to behave responsibly with users' data.

II. Potential Causes of Action

Consumers will likely seek to band together to form a class to address any causes of action against an App Developer or OS Manufacturer. Why? It is hard to quantify a reasonable economic value of photographs or address book entries stored on a mobile device. The best way for consumers to demonstrate the magnitude of an App Developer's or OS Manufacturer's behavior is to create a class of users to litigate against operating systems, and the offending apps running on those systems. Keeping the SampleTravel hypothetical in mind, we can endeavor to think about a number of laws implicated by data siphoning.

As stated earlier, potential remedies lie in federal and New York state statutes, as well as the New York common law. The Consumer plaintiffs could assert invasion of privacy, false advertising, unfair and deceptive trade practices, breach of contract, and various intentional torts as causes of action.

A. Federal Statutes

The federal statutes that Consumers may look to span three categories. The first, invasion of privacy, holds two statutes: the Computer Fraud and Abuse Act (CFAA),[36] and the Electronic Privacy Communications Act (ECPA) of 1986, which amended pre-existing privacy laws. Title I of the ECPA amended the Omnibus Crime Control and Safe Streets Act of 1968, also known as the Federal Wiretap Act (Wiretap Act), and prohibits the interception of communications.[37] Title II of the ECPA is also called the Stored Communications Act (SCA), which proscribes retrieving the contents of stored communications in various situations.[38] The statute expressly does not provide a private right of action for consumers, but permits consumers to complain about a business's unfair business practices. The Digital Millennium Copyright Act (DMCA) is also worth mentioning because of the metadata automatically embedded in digital photographs taken with smartphones.

1. Computer Fraud and Abuse Act

The Consumer plaintiffs' first federal privacy statute claim lies under the CFAA.[39] The CFAA is broad and prohibits seven specific ways that people could perpetrate some sort of fraudulent or otherwise abusive activity in connection with computers. It provides a civil remedy, stating that "[a]ny person who suffers damage or loss by reason of a violation of this section may maintain a civil action against the violator to obtain compensatory damages and injunctive relief or other equitable relief."[40] The CFAA provides for a private right of action if "the defendants' wrongful conduct causes one of the enumerated types of 'loss or damage' set forth in subsection (c)(4)(A)(i) of the statute."[41] Plaintiffs can obtain compensatory damages, injunctive relief, and other equitable relief against violators of the CFAA.[42] This civil action is subject to a threshold of minimum losses valued at $5,000 in any one-year period.[43] The type of "damage" civilly recoverable is limited to "any impairment to the integrity or availability of data, a program, a system, or information…."[44]

Two of the seven types of activities appear to be most applicable to the dispute that the Consumers have with App Developers. Those provisions forbid whoever:

> (4) knowingly and with intent to defraud, accesses a protected computer without authorization, or exceeds authorized access, and by means of such conduct furthers the intended fraud and obtains anything of value, unless the object of the fraud and the thing obtained consists only of the use of the computer and the value of such use is not more than $5,000 in any 1-year period;
>
> (5)
>
> (A) knowingly causes the transmission of a program, information, code, or command, and as a result of such conduct, intentionally causes damage without authorization, to a protected computer;
>
> (B) intentionally accesses a protected computer without authorization, and as a result of such conduct, recklessly causes damage; or
>
> (C) intentionally accesses a protected computer without authorization, and as a result of such conduct, causes damage and loss.[45]

One variant of the argument that the Consumers could make tracks §1030 (a)(4) of the CFAA. The App Developer, knowingly, and with the intent to defraud the Consumers of their photos, accessed specific folders on specific smartphones (the alleged "protected computers"), without authorization (for Android users) or exceeding the authorization granted (for iOS users). By retrieving those photos, the App Developer furthered the fraudulent scheme.

The second argument Consumers could make tracks §1030 (a)(5) of the CFAA. This argument can have three permutations. First, the App Developer knowingly transmitted its mobile software, intending to pilfer photos from smartphones (the "protected computers").[46] A second variation is that the App Developer intentionally accessed the smartphone without authorization, and as a result, recklessly caused damage.[47] Finally, a third permutation may argue that the App Developer intentionally accessed a smartphone without authorization, and as a result, caused damage and loss.[48]

Both lines of argument pose critical questions. Are smartphones "computers" under the statute? If so, do they rise to the level of a "protected computer?" Third, and most importantly, how can the Consumers show the requisite damage? The CFAA defines a computer as "an electronic, magnetic, optical, electrochemical, or other high speed data processing device performing logical, arithmetic, or storage functions, and includes any data storage facility or communications facility directly related to or operating in conjunction with such device." However, it explicitly excludes automated typewriters, typesetters, portable handheld calculators, and other similar devices.[49] The U.S. government certainly considers mobile devices (smartphones and tablets) to be computers. Federal prosecutors have subpoenaed businesses to investigate whether various app makers have been collecting additional data about their users without notice or proper disclosures.[50] Courts have done so as well. In *U.S. v. Kramer*,[51] the court held that: "If a device is 'an electronic…or other high speed data processing device performing logical, arithmetic, or storage functions,' it is a computer. This definition captures any device that makes use of an electronic data processor, examples of which are legion."[52] The court continued, "[a]dditionally, each time an electronic processor performs any task—from powering on, to receiving keypad input, to displaying information—it performs logical, arithmetic, or storage functions. These functions are the essence of its operation."[53] Featuring specs like a dual-core A5 chip processor, a choice sporting 16-, 32-, or 64-GB hard drives, and built-in productivity applications,[54] it is difficult logically to argue that a mobile electronic device is not a computer.

Even the concept of a "protected computer" goes one step further. Under the CFAA, a "protected computer" is a computer "used in or affecting interstate or foreign commerce or communication, including a computer located outside the United States that is used in a manner that affects interstate or foreign commerce or communication of the United States." Smartphones are used in one part of the country to communicate with others, at any time, with someone else in another part of the world. There is simply no logical challenge that a smartphone would not qualify as a "protected computer" under the CFAA.

The App Developers may argue that they lacked the requisite intent under the CFAA. The CFAA requires a knowing or intentional *mens rea*. In the Second Circuit, this means that "the defendant acted deliberately and purposefully; that is, the defendant's act must have been the product of defendant's conscious objective rather than the product of a mistake or accident."[55] App Developers have to actively code for every function that they want the software to perform. The Consumers may have an easy time showing that a request for location data to plan travel does not equate to taking photos, the address book, and using them for advertising purposes.

Most importantly, where is the damage? In response to a §1030(a)(4) claim, the defendant App Developers would argue that their behavior falls below the required threshold and that all they obtained was the use of the smartphone (a computer), and that the damages do not exceed $5,000 in a one-year period. How could the Consumer plaintiffs meet the $5,000 damages threshold? Under the CFAA, the Consumers can plead a "loss stemming from damage assessment and/or remedial measures, even without pleading actual damage."[56] Losses sustained by the plaintiffs in investigating potential damages to their computers (or, in this case, smartphones) is not diminished simply because "fortuitously no physical damage was allegedly caused to the computer system or software."[57] However, the Consumers' costs incurred to investigate a potential CFAA violation must be reasonable.[58] Surely, with a class of Consumers—with the number of Android-powered phones and iPhones currently in use in the United States, the cost of investigating how the operating systems work, and how the hypothetical App Developer's software interacts with it, could easily and reasonably exceed the $5,000 threshold.[59] However, damages and losses under §1030(e)(8)(A) may only be aggregated across victims and over time for a single act.[60]

2. Title I of the ECPA: Federal Wiretap Act

The ECPA amended the Wiretap Act and extended to data and electronic communications the same protections already afforded to oral and wire communications. The post-ECPA Wiretap Act allows a private right of action against anyone who "intentionally intercepts, endeavors to intercept, or procures any other person to intercept or endeavor to intercept, any wire, oral, or electronic communication."[61] In order to proceed on a Title I claim, a plaintiff must show five elements: that a defendant "(1) intentionally (2) intercepted, endeavored to intercept, or procured another person to intercept or endeavor to intercept (3) the contents of (4) an electronic communication (5) using a device."[62] Claims falling under the Wiretap Act have a two-year statute of limitations, starting from when the "claimant first has a reasonable opportunity to discover the violation."[63]

In the hypothetical, the class of Consumers could argue that the defendant App Developers intentionally, through their software, intercepted their Consumer communications on their mobile devices, in order to steal photographs stored on the devices. However, this argument is tenuous. The App Developers may challenge the allegations on three major grounds—(1) that the data collected are not "contents" under the Wiretap Act, (2) that the App Developers lack intent or; (3) the App Developers may invoke the consent exception.

"Contents" under the ECPA relate to any wire, oral, or electronic communication, as including any information concerning the substance, purport, or meaning of that communication.[64] Electronic communications are afforded "broad, functional" interpretation.[65] They include "any transfer of signs, signals, writing, images, sounds, data, or intelligence of any nature transmitted in whole or in part by a wire, radio, electromagnetic, photoelectric, or photooptical system that affects interstate or foreign commerce," with certain exceptions unrelated to this case.[66] "Contents" do not, however, include personal identifying data, such as names, addresses, and phone numbers of parties, which are the essence of a data privacy case.[67] This spells bad news for a Title I claim. Most of the data at issue, the metadata underlying the photos, and the address book entries are all personal identifying data that fall outside the definition of contents under the ECPA.

It is unclear, though, whether photos would qualify as substantive content under the ECPA. Even if they did, a class of Consumers would be hard-pressed to prove that a photo stored on a device qualifies as a communication.

If by some chance the data discussed above qualifies, the App Developers may argue that they lacked the requisite intent under the Wiretap Act. *Mens rea* requires a deliberate, purposeful, conscious objective to effect some act, and not a mistake or accident.[68]

Consent is an exception to the Wiretap Act. A party can avoid liability under the statute if it can show that "one of the parties to the communication has given prior consent to the interception, unless the communication is intercepted for the purpose of committing any criminal or tortious act in violation of the Constitution or laws of the United States or any State."[69] The defendant App Developers may also argue that the Consumers have consented to the interceptions by pointing to the metadata in photos as evidence of location data that the software requested. This argument should likely fail. With the exception of, perhaps, explicit photo-sharing applications, it is difficult to understand how allowing a mobile software program to retrieve location information equates to granting permission to retrieve, upload, and store data (photos) on a remote server.

Consent "should not casually be inferred."[70] While consent can be implied, the circumstances must convincingly show that the party knew about and consented to the inception.[71] In the hypothetical, the Consumers only consented to the capture of location data. Not only did they not know that the offending app had the ability to access the photo album, the app's prompts did not request the Consumers' permission to do so, much less upload the photos to a remote server. Nor can consent to interception be inferred from the mere purchase or use of a service, regardless of the circumstances.[72] "Deficient notice will almost always defeat a claim of implied consent."[73] A finding of implied consent would weaken efforts by the Operating Software Manufacturer to require that the privacy interests of those who electronically communicate through that software be protected by outside application developers.

Title II of the ECPA: Stored Electronic Communications Act

The third privacy-related statute implicated by the hypothetical is the SCA. Section 2707 of the statute creates a private right of action against anyone who:

1. intentionally accesses without authorization a facility through which an electronic communication service is provided; or

2. intentionally exceeds an authorization to access that facility; and thereby obtains, alters, or prevents authorized access to a wire or electronic communication while it is in electronic storage in such system.[74]

"Electronic communication services" are "any services which provide to users thereof the ability to send or receive wire or electronic communications."[75] They include telephone companies, ISPs, and electronic bulletin boards, but not most commercial websites.[76] Cellular phone service providers like Verizon, Sprint, AT&T, and T-Mobile are examples of facilities.

Probably arguments to be made by the class of Consumers under the SCA will differ based on whether each Consumer uses an iOS- or Android-powered phone (Apple iOS requires some sort of authorization prior to any app accessing any photos on the device; Google's Android devices do not). The argument that the Consumer plaintiffs who were Android users generally follows §2701(a)(1)—App Developers intentionally accessed their photos, without authorization on their smartphones, a facility through which an electronic communication service is provided. iOS Consumer plaintiffs would follow §2701(a)(2), contending that the App Developer exceeded the original authorization granted to retrieve only location data, accessed their photos folders, which were stored electronic communications, and uploaded them to its remote server, unbeknownst to each plaintiff.

In any event, an SCA claim would likely be unsuccessful. Electronic storage under the ECPA means "[a]ny temporary, immediate storage of a wire or electronic communication" incidental to its transmission, or storage of such a communication for backup purposes.[77] Courts have held that Title II pertains to communications temporarily stored in "'electronic bulletin boards' and 'computer mail facilit[ies],' and the risk that communications temporarily stored in these facilities could be accessed by hackers."[78] The photos in the hypothetical are in a separate folder on each device. In order for an SCA claim to succeed, a court would have to essentially decide if, by virtue of the fact fact a photo or any other document, for that matter, is on a smartphone or tablet, that makes it in "temporary, immediate storage" for purposes of the SCA.

App Developers could also point to consent as a defense under the SCA, where conduct is authorized: (1) by the person or entity providing a wire or electronic communications service;[79] (2) "by a user of that service with respect to a communication of or intended for that user;[80] or (3) exceptions" referenced in other sections of the U.S. Code.[81] As with the discussion of the Wiretap Act,[82] deficient notice will defeat assertion of the consent defense.

Lanham Act

The Consumer plaintiffs may look to assert a false advertising claim under §43 the Lanham Act.[83] The OS Manufacturers' public statements regarding their mobile operating systems as safe and requiring permissions to access personal data on devices, may leave them vulnerable to liability. Section 43(a) of the Lanham Act prohibits false statements or misrepresentations made in commercial advertising or promotion that are likely to deceive consumers and cause injury to a plaintiff. Remedies for Lanham Act violations include injunctive relief, damages, corrective advertising, and attorney's fees.[84]

A Lanham Act false advertising claim has five elements: (1) that a defendant made a false or misleading statement of fact in a commercial advertisement about a product that (2) either deceived or had the capacity to deceive a substantial segment of potential consumers; that was (3) material, in that it was likely to influence a consumer's decision to purchase the product; that was in (4) interstate commerce; and (5) the plaintiff has been or will likely be injured as a result of the statement.[85] It is important to note, however, that the Second Circuit narrows the class of potential plaintiffs in false advertising claims to only those who are able to demonstrate "(1) a reasonable interest to be protected against the alleged false advertising and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising."[86] A false advertising claim under the Lanham Act requires the plaintiff to establish that the challenged advertisement is false.[87] "Falsity may be established by proving that (1) the advertising is literally false as a factual matter, or (2) although the advertisement is literally true, it is likely to deceive or confuse consumers."[88]

The Consumers, to sustain their §43(a) claim, must show that the statements regarding the privacy and security of the operating systems are either '"(1) the advertising is literally false as a factual matter, or (2) although the advertisement is literally true, it is likely to deceive or confuse customers.'"[89] "[I]n addition to proving falsity, the plaintiff must also show that the defendants misrepresented an 'inherent quality or characteristic' of the product."[90] That requirement satisfies materiality.[91]

3. Digital Millennium Copyright Act

There may also be a potential claim against the App Developers under the DMCA. Removing or altering copyright management information from photographs is unlawful.[92] In the hypothetical, the test case Consumer noticed that her photograph had been uploaded to the test app's website and used as advertisement showing a happy user. Nothing in that example or the articles that inspired it suggested that copyright management information was removed, but a potential claim under the DMCA is certainly worth mentioning.

Under the DMCA, "copyright management information" includes "[t]he name of, and other identifying information about, the copyright owner of the work, including the information set forth in a notice of copyright."[93] In other words, removing the metadata from a copyrighted photograph is prohibited.

Five elements are required to state a claim under the DMCA. A plaintiff must (1) own a valid copyright; (2) the defendant must circumvent of a technological measure designed to protect the copyrighted material; (3) third parties must access the copyrighted material; (4) that circumvention must cause the infringement; and (5) the circumvention was achieved through software that the defendant either (i) designed or produced primarily for circumvention; (ii) made available despite only limited commercial significance other than circumvention; or (iii) marketed for use in circumvention of the controlling technological measure.[94] As stated earlier, cameras on mobile devices automatically embed data identifying the owner of the phone, various other technical information, and, in some cases, the © logo denoting copyright.[95] However, the fact that registration is required to pursue a copyright infringement claim in the Second Circuit may hamper any DMCA claim.[96]

B. State Statutes

Since the FTC Act does not provide a private right of action,[97] state advertising statutes can prove a useful tool in corralling unfair trade practices. Consumers could argue that the App Developers' acts of photo pilfering and address book raiding constitute deceptive acts or practices under §§349 and 350 of the New York General Business Law. New York's Consumer Protection Act, General Business Law article 22-A, was enacted to provide consumers with a means of redress for injuries caused by unlawfully deceptive acts and practices. It provides consumers with a private right of action that its federal counterpart, the FTC Act, does not. Article 22-A "is intentionally broad, applying 'to virtually all economic activity.'"[98] "The statute seeks to secure an 'honest market place' where 'trust,' and not deception, prevails."[99]

1. New York's Unfair and Deceptive Acts and Practices Act

Under §349, the Consumers must plead three elements: (1) "that the challenged act or practice was consumer oriented"; (2) "that it was misleading in a material way"; and (3) "that the plaintiff suffered injury as a result of the deceptive act." The deceptive practice must be "likely to mislead a reasonable consumer acting reasonably under the circumstances." Further, "deceptive acts or practices" must be the actual misrepresentation or omission to a consumer. The Consumer plaintiffs must prove "actual injury" to recover under the statute, but that does not necessarily mean financial harm.

In our hypothetical, the Consumers could file complaints against two types of defendants. First, under §349, the Consumers can argue that the App Developers mislead them to believe that they were only granting access to location data, but in reality they granted access for the App Developers' software to access photos, and as a result of that behavior, were injured.

The App Developer defendants may challenge this cause of action by arguing that because collection of data does not constitute "economic damage" for the purposes of the CFAA, and as a result, the Consumers similarly have not satisfied the damage requirement under §349. Under the CFAA, though, plaintiffs are permitted to include reasonable costs of investigating any security breaches of their devices into damages. Aggregating those costs across a class of consumers may help the Consumers reach that threshold in a CFAA claim, and those Consumers may try to piggyback reaching the damages threshold in the CFAA claim to the §349 claim.

2. New York's False Advertising Act

Section 350 provides that "false advertising in the conduct of any business, trade or commerce or in the furnishing of any service in this state is hereby declared unlawful."[100] Although the standard for recovery under General Business Law §350 is specific to false advertising, in all other respects, it is identical to §349. The purpose of both sections is the protection of consumers. Plaintiffs may sue under either if they can allege "some harm to the public at large."[101] Finally, the transaction in which the consumer is deceived must occur in New York.[102] This provision is simply the state corollary to the Lanham Act.

Under §350, the Consumers may argue that the OS Manufacturers advertised that they have privacy measures in place to prevent software from accessing other data on devices without the owners' explicit permission. In the case of iOS devices, the App Developers have managed to circumvent that. With respect to Android devices, those protections were non-existent to begin with, given that operating system's structure.[103] Both OS Manufacturers publicly made statements affirming the built-in security features of the operating systems, discussed their vetting of apps, and published on the Internet developer manuals prescribing that apps should not have to ramble in unnecessary folders on mobile devices.

C. New York Common Law

Finally, the Consumers may be tempted to plead a mélange of common law claims. The following represent potential New York state common law claims relating to the hypothetical Photo Spy app: (1) common law invasion of privacy; (2) trespass to chattels; (3) breach of contract; and (4) breach of implied contract. Each will be discussed, in turn.

1. Invasion of Privacy

In New York, there is "no common-law right of action for invasion of privacy."[104] The New York legislature has codified New York's right of action for invasion of privacy. The right to privacy in New York is governed exclusively by §§50 and 51 of the Civil Rights Law.[105] In New York, a plaintiff can make out an invasion of privacy claim only when a person's name, likeness or voice has been used for advertising purposes or in commerce without permission.[106]

In the hypothetical, the test Consumer noticed her photo used on the SampleTravel website as a happy software user. She would argue that her likeness has been used for advertising purposes without permission.

2. Trespass to Chattels

The Consumers may attempt to allege two potential lines of argument for a trespass to chattels claim: 1) that the App Developer defendants have dispossessed the class of Consumer plaintiffs of the economic value of their personal information (namely, their photos), and 2) that the App Developer defendants have impaired the value of the Consumer plaintiffs' mobile devices (smartphones and tablets) by using the software to steal personal information.

"[T]respass to chattels occurs when a party intentionally, without justification or consent, physically interferes with the use and enjoyment of personal property in another's possession, and thereby harms that personal property."[107] Liability for this tort is limited to situations where the interferor's "interference results in harm to the [owner's] materially valuable interest in the physical condition, quality, or value of the chattel, or if the [owner] is deprived of the use of the chattel for a substantial time."[108]

3. Breach of Contract

In New York, a plaintiff must prove three elements: (1) that a valid contract was formed; (2) that the plaintiff performed his or her obligations under the contract; and (3), that the defendant failed to perform his or her obligations.[109]

All software apps come with terms of use, commonly called clickwrap agreements or clickthrough licenses. They are a part of the installation process, and the user assents by clicking an "ok," "accept," or "agree" button on a dialog box or pop-up window. If a user wishes to reject, he or she simply clicks "cancel," "decline," or the "X" at the top of the pop-up box. They are contracts of adhesion, which lack bargaining power, but bind the App Developer and the user for the enjoyment of the software.

In the hypothetical, the Consumer read the terms of service, and nowhere was it stated that by installing the software, the user was granting the App Developer the right to collect personal information from the smartphone. As the Consumer, the purchaser of the software, had no notice that the App Developer might do that if she installed the software, a court may find that the App Developer gave inadequate notice, and find it liable for breach of contract.

4. Breach of Implied Contract

In the event that a breach of contract claim is unsuccessful, the Consumer might consider an implied contract theory. Under New York law, a plaintiff must establish: "(1) the performance of services in good faith, (2) the acceptance of the services by the person to whom they are rendered, (3) an expectation of compensation therefore, and (4) the reasonable value of the services."[110]

The Consumer, who provided access to location data in good faith to SampleTravel, reasonably expected that such information would be used for only express purpose of the basic functionality of the original purpose of the application. In turn, the mobile device owner would receive the benefit of an accurate travel plan. Implied in this agreement to release location data is the promise that the software would collect only the data it requested and nothing more. The App Developers breached this implied contract when SampleTravel exceeded its permissions by accessing, and then uploading, the contents of the photos folder and the address book, unbeknownst to the Consumer. Essentially, the primary issue is not that the Consumer plaintiffs did not receive what they bargained for, but that the app did more than what they were told it would do.

III. Conclusion

Pilfering data from mobile devices without permission could trigger a number of statutory and common law claims. The likelihood of success for a class of Consumer plaintiffs varies based on additional facts discoverable as the case progresses. Regulators need to enforce existing statutes; legislators must amend them to respond to modern digital privacy issues and anticipate new ones as technology continues to evolve. Jurists dealing with common law claims should also be aware of technological developments, so that the common law adequately provides redress for current problems that will only intensify.

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Jason Emile Carlie is a graduate of the University of Pennsylvania Law School. He is interested in any opportunities in copyright, trademark, advertising, entertainment, and privacy law. He may be contacted at jcarlie@alumni.law.upenn.edu.

Suing Ourselves: How Our Need for Smartphones Allows Apple and Google to Act Like Big Brother

By Christy Foley

Introduction

It is rare to find someone without a smartphone these days (and even rarer to find a lawyer without such a phone). On occasion, we use smartphones to call and text each other. More often, we use smartphones to check our email, update our social networking websites, get directions, locate nearby businesses, and take photos. Our smartphones help us stay constantly connected to the world. What most of us do not realize, though, is how visible our private information is to the world because of these phones…and just who might be collecting that private information.

Background

In April 2011, two researchers began publicizing the fact that Apple's iPhone and iPad devices secretly record the locations of their users. The researchers, Alasdair Allan and Pete Warden, discovered that Apple devices include a system for collecting users' locations, time-stamping those locations, and then storing that information in hidden files for up to a year.[1] Research indicated that location data may be transferred up to 100 times a day.[2] The information is even being "restored across backups [and] device migrations," indicating that Apple intentionally keeps track of its users.[3]

Warden, who once worked as an Apple software engineer, and Allan say that the file containing all of a user's location tracking data is not encrypted and can be accessed via any machine synched to the user's iOS 4 device.[4] Apple released iOS 4 in June 2010 for its 3G devices.[5] It is said that even when a smartphone user tries to circumvent the location tracking by disabling one's device's GPS function, the tracking system continues to operate.[6] Therefore, consumers have no way to stop this tracking or to stop Apple from keeping track of them like Big Brother.[7]

Apple devices ask users for permission to use location data one time (for purposes such as mapping) by displaying a pop-up window.[8] In that window, a message appears and explains that granting Apple permission to use your location to create data will also allow apps "access to location information in photos and videos."[9] Consequently, apps can access—and copy—people's photo libraries without notifying users at all.[10] In that way, David E. Chen (a co-founder of the Curio app development company) says it is possible for apps to "put together a history of where the user has been based on photo location."[11]

Additionally, researchers found that Google's Android operating system does the same thing that Apple's iOS 4 devices do.[12] As a result, the discovery of this location tracking practice by both Apple and Google potentially impacts nearly 60 million American smartphone users, many of whom may have synched their phones to computers that have unsecured connections to the Internet.[13]

In their defense, Apple and Google argue that the location tracking data was implemented to make services easily accessible to customers.[14] Apple and Android representatives have said that the "location information regarding nearby Wi-Fi access points and cell towers is kept…to help the user continue to enjoy the service when no service connection is available and to improve speed."[15] For smartphone users, it is certainly helpful to have a cell phone identify the nearest restaurants, ATMs, and stores. It can also be nice to have a streamlined system for telling Facebook where pictures were taken. Yet do those benefits warrant the loss of privacy many iPhone and Android customers are now feeling? Or is there a way to eliminate Big Brother's constant observations while still providing consumers with helpful services on their smartphones?

Terms of Service

Part of the problem is that smartphone users are given vague terms of service and privacy policies to sign when they purchase their phones. Even Apple admitted that "[u]sers are confused…because the creators of this new technology (including Apple) have not provided enough education about these issues to date."[16] If the smartphone creators did not properly "educate" consumers about the sensitive data that would be collected about users when they activate the phone, then the wireless providers should have given customers that information. However, the Terms of Service for AT&T iPhone customers' states:

> Your Device may be location-enabled meaning that the Device is capable of using optional Goods, Content, and Services…using location technology such as Global Positioning Satellite ('GPS'), wireless network location, **or other location technology**. Please review the terms and conditions and the associated privacy policy for **each** Location-Based Service to learn how the location information will be used and protected. We may also use

> location information to create aggregate data…[17]

Here, AT&T reserves the right to use any kind of location tracking the company desires. The company also puts a burden on its customers to review the privacy policy, as well as the terms and conditions, for each service used to determine whether the company is tracking consumers. Yet reviewing each individual policy can be extremely time consuming. It can also be difficult to use on a small smartphone screen. Although lawyers (in theory) know never to click "I Accept" when downloading a new app on a smartphone without reading the accompanying policies, most people accept the terms and conditions of apps every single day without ever reading them. This is a problem acknowledged by the Federal Trade Commission (FTC) in its May 2011 Staff Report, where it was suggested that, in the future, "companies should also obtain affirmative express consent before collecting or sharing sensitive information such as precise geolocation data."[18] That way, consumers would know exactly when their devices were being tracked and would have the opportunity to refrain from using services that enabled tracking mechanisms.

To seek clarity on AT&T's use of location-based services, customers can also examine the company's privacy policy. However, there is a problem with that policy as well. According to John Casasanta (owner of the app development business Tap Tap Tap), "The message the user is being presented with [in the privacy policy] is very, very unclear."[19] Casasanta said that AT&T's privacy policy does not describe why a smartphone would need to hide a user's location tracking data or store it for up to a year. As a matter of fact, the policy offers no explanation for such a detailed location tracking system. It simply says:

> We monitor, collect and use your wireless location information, as well as other information obtained from our network and your device, to provide you with wireless voice and data services, and to maintain and improve our network.[20]

This does not imply that iPhones are tracking anyone in particular (or, for that matter, tracking people's precise locations). Rather, it implies that smartphone providers simply want to collect data about local hotspots and cell towers…which does not explain why Big Brother is keeping track of customers' precise locations.

The AT&T iPhone privacy policy also states, "We collect some information on an anonymous basis. We also **may** anonymize the personal information we collect about you."[21] Obviously, the word "may" is of concern to many customers, since it means that the company does not have to anonymize the information it is collecting about smartphone users. The idea to anonymize the data is completely self-imposed, since there are no laws requiring smartphone providers to do that. As a result, Apple and Android employees (or affiliate companies' employees) could have access to data about smartphone users that is not necessarily anonymous or encrypted.

We would, of course, be remiss if it was not acknowledged that this tracking information could serve beneficial purposes when put in the right hands (law enforcement, for example). However it seems that the potential negative consequences of this tracking information far outweigh the positive. Since this location tracking system cannot be turned off (though Apple has pledged to allow opt-outs in future iOS systems),[22] users have no control over smartphones storing unencrypted data about their every movement. Therefore, anyone who studies a smartphone user's movements can easily find patterns of behavior to help predict where the person might be going next, or what sensitive trips a person might be taking (such as to doctors' offices or political rallies). Whether it be a robber waiting for one to leave a house or an abusive spouse trying to track another's location, this is information that could be exceedingly dangerous if placed in the wrong hands.[23] Law enforcement, on the other hand, could use this information, even if it was protected in an encrypted format and not stored for an entire year. So why is Big Brother continuing to gather so much information about people's locations in ways that large numbers of police officers would not even be able to do? Nobody seems to know…but many of us keep using smartphones and letting our every move be tracked.

As smartphones have become so prevalent in our society, New York's Senator Schumer has expressed concern about Apple's practices and privacy policies. The Senator issued a statement explaining that Apple's recording of users' locations "go[es] well beyond what a reasonable user understands himself to be consenting to when he allows an app to access data on the phone for purposes of the app's functionality."[24] In March, Schumer asked the FTC to investigate the cell phone companies' use of location tracking data in order to determine if "copying or distributing personal information from smartphones, without a user's consent, constitutes an unfair or deceptive trade practice."[25] Senator Schumer asked for the investigation by the FTC because it had been granted power under the FTC Act to prohibit companies from engaging in unfair or deceptive marketing tactics that would materially change a consumer's decision to purchase a product or that would injure a consumer.[26] However, the FTC Act is not the only potential grounds for a lawsuit of this nature.

Potentially Applicable Statutes

Since Senator Schumer's call for an investigation, at least three lawsuits have been filed (two of which were filed in Florida; one against Apple and one against

Google).[27] Although consumers typically think that the lawsuits against smartphone providers should be based on privacy concerns, the filings have not stated claims for disclosure of private facts. They have not alleged invasion of privacy claims because when consumers are in public, they do not have a right to privacy.[28] Since the geolocation tracking does not disclose anything except a consumer's location—which the consumer arrives at by going in public—the invasion of privacy claims would fail. Additionally, some state statutes are so narrowly drawn that they would not allow for an invasion of privacy claim. As an example, New York Civil Rights Law §50 defines an invasion of privacy only as the unauthorized use of one's name or image for advertisement or trade purposes.[29] Obviously, such a statute would not help smartphone customers bring claims against companies such as Apple and Google for tracking smartphones' locations. Therefore, in the complaints that have been filed, consumers allege that the location tracking practice results in misrepresentation and violates "federal computer fraud laws [as well as] consumer fraud and deceptive trade practice laws in many states."[30]

The Computer Fraud and Abuse Act (CFAA) has been at the center of these lawsuits. The CFAA, which was originally enacted in the 1980s, "criminalizes, in relevant part, one who—intentionally accesses a computer without authorization or exceeds authorized access…from any protected computer."[31] It can certainly be argued that smartphones are mobile mini-computers and that Apple and Android might be exceeding their authorized access to the devices' information. A lawsuit filed in Florida did just that, arguing that "[b]y secretly installing software that records users' every move[] Apple has accessed Plaintiffs' computer…in excess of the authorization provided by Plaintiffs."[32] Specifically, the lawsuit alleged that "Apple further violated the Fraud Act by causing the transmission of a program, information, code or command" in violation of the CFAA.[33]

However, making that argument requires one to stretch what the CFAA was intended to accomplish. Initially, the CFAA was "designed to combat egregious computer crimes and [therefore] cannot, and should not, be a primary tool in protecting consumers' mobile privacy from data sharing," according to Justin Brookman, the Director of the Consumer Privacy Center for Democracy and Technology.[34] The statute simply was not drafted in a way that would easily apply to geolocation tracking practices on smartphone devices. As such, the CFAA is not helpful for consumers of today's technology who want to argue that smartphone providers are impinging on people's autonomy by tracking the location of phones.

The second argument advanced in the complaints filed against Apple and Google is that the smartphone companies have violated the FTC Act (as well as multiple state unfair and deceptive trade practices acts). Although "the FTC is generally limited under current law to bringing enforcement actions against companies that make affirmative misstatements about their own privacy practices,"[35] the FTC Act does allow claims to be brought for "unfair" or "deceptive" trade practices. The Act explains that business practices are "unfair" when they "cause[] or [are] likely to cause substantial injury to consumers which is not reasonably avoidable by consumers themselves and not outweighed by countervailing benefits to consumers or to competition."[36] Thus, in order to establish a cognizable claim under the FTC Act, plaintiffs must demonstrate: (1) that they have incurred a substantial injury; and (2) that injury (or, in some cases, product) was not reasonably avoidable.

This is where most plaintiffs encounter a problem.[37] Although consumers feel that their privacy has been invaded because their location has been tracked, so far there is no evidence showing that this data has been used for illegal purposes or has in any way resulted in "substantial injury" to a single consumer, as would be required by the FTC Act (and by Article III of the Constitution to establish standing for the lawsuit).[38] Additionally, plaintiffs would have to illustrate why their use of a smartphone (or iPad) "was not reasonably avoidable," which can be very difficult. Although millions of people use these devices, there are alternative types of cell phones available and most consumers have access to a computer every day in case they need to view information only available online or on a hard drive.

Another argument consumers have made in their lawsuits against Big Brother is the violation of state statutes because "[e]ach state has enacted laws comparable to the Federal Trade Commission Act, known as 'little FTC' acts,"[39] which can be used to argue that smartphone providers' privacy policies were unfair and / or deceptive.[40] Under the FTC Act—and the comparable state statutes—a deceptive business practice is one that "is likely to mislead a consumer acting reasonably under the circumstances."[41] According to the complaints filed against Apple and Google, the lack of disclosure in the companies' privacy policies regarding geolocation tracking practices was material because it would have "affect[ed] a consumer's decision regarding the product" and whether the product should be purchased.[42] While this is a valid point, plaintiffs would still encounter trouble bringing claims under these statutes because the disclosures are so broad that there is no distinct act of deception being committed.

Some experts have argued that plaintiffs should not bring claims under the FTC Act, but instead should consider whether the Electronic Communications Privacy Act would apply to consumers' claims against Apple and Google.[43] However, that Act (which was originally enacted in 1986) applies mostly to electronic communication services. Electronic communication services (or "ECSs") are those services that transmit communications electronically, as the name implies. The creators of this Act, though, did not envision the types of electronic communications utilized by smartphones—and particularly did not envision geolocation tracking communications. As a result, most apps are not considered ECSs, or at least fall into a "grey area" regarding their status as an ECS.[44] Consequently, it would require a "highly fact-dependent analysis on the ECS question" to determine whether the ECPA would apply to each app that utilizes geolocation technology.[45] The simple impracticality of trying to determine whether each app that engages geolocation technology is considered an ECS would be too cumbersome to produce results for those concerned about their privacy, especially since experts say "mobile operating systems…likely do not qualify" as ECSs in the first place.[46]

Finally, some commentators have looked to the recently proposed Consumer Privacy Bill of Rights for guidance.[47] The Bill was created by the Obama Administration to give consumers power against companies that want to collect and use their private information. In particular, the Bill states that it will:

> Require each covered entity (1) to provide clear, **concise, and timely notice** to individuals of (A) the practices of the covered entity regarding the collection, use, transfer, and storage of covered information; and (B) **the specific purposes of those practices;** (2) to provide clear, concise, and timely notice to individuals before implementing a material change in such practices; and (3) to **maintain the notice required by paragraph (1) in a form that individuals can readily access.**[48]

This Bill could provide smartphone users with much better disclosures—in a way that can actually be read on a small screen. However, it may not necessarily eliminate the tracking practices Google and Apple are conducting. Another section of the proposed Bill, section 301, states that smartphone providers could still collect data regarding Wi-Fi access points and cell tower accessibility for users because "covered entit[ies] shall" be allowed to:

> (1) collect only as much covered information relating to an individual as is reasonably necessary…(G) for research and development conducted for the improvement of carrying out a transaction or delivering a service or (H) for internal operations, including…conducting customer research to improve customer service.[49]

The original Bill also included a subsection within 301 that would allow information to be retained by the companies for however long they determined was necessary "for research and development" purposes.[50] Thus, the Bill would still give smartphone providers the ability to retain tracking information about consumers. Although parts of this Bill seem to protect consumers well, the final Bill will need to include an additional provision limiting smartphone providers' actions and ability to retain location tracking information, even for "research and development" purposes, if consumers are truly to be protected from Big Brother's watchful eye.

Additional Difficulty with Lawsuits

In April 2011, two consumers who felt their rights were not being protected by Apple banded together to sue the corporation in the Middle District of Florida (one was an iPhone user and the other was an iPad user). The Apple customers, Vikram Ajjampur and William Devito, sought damages and an injunction to prohibit Apple from tracking customers through cell-tower triangulation and GPS data.[51] In the complaint, Apple's tracking practices were compared to court-ordered tracking devices that law enforcement would usually have to obtain warrants to use.[52] Similarly, the Southern District of Florida received a lawsuit against Google for its "tracking and recording of plaintiffs' movements and locations…without their knowledge or consent" on an Android phone.[53]

Although at least three such lawsuits have been filed, they have failed to be heard in court because the plaintiffs have a difficult time demonstrating standing. In fact, a consolidated lawsuit filed against Apple in California has been dismissed due to lack of standing.[54] In particular, plaintiffs have trouble proving that they suffered an injury as a result of these location-tracking practices. In the complaints that were filed, the alleged "irreparable injury" that resulted from the location tracking was consumers' "shock[] and alarm[] to learn of Apple's practices" because Apple (and other smartphone providers) did not "obtain[] specific, particularized informed consent" for the location tracking software.[55] Courts have rejected this as a basis for standing, though, stating that it does not demonstrate "a concrete harm from the alleged collection and tracking of [consumers'] personal information sufficient to create injury in fact," especially since there has been no evidence showing that this data has in any way resulted in injury to a single consumer.[56]

The complaints have also described consumers' injuries as being a deprivation "of money they would have spent elsewhere."[57] However, this is not a cognizable injury demonstrating consumers have suffered irreparable harm. The court responsible for dismissing the lawsuit against Apple stated that "the tracking or disclosure of personal information does not establish an 'economic loss' sufficient to find an injury in fact," even considering that plaintiffs spent money in purchasing the smartphones.[58] The court based its decision on the *Specific Media* case, which held that when plaintiffs only offer "'abstract concepts, such as 'opportunity costs,' 'value-for-value exchanges,' 'consumer choice,' and 'diminished performance,'" no particularized economic injury or harm is presented to establish Article III standing.[59]

Finally, the complaints have argued that the smartphone companies' practices cause an injury to the marketplace because they inhibit competition and cause "honest companies…to lose market share" while Apple and Google are "rewarded for [their] deceit with billions of dollars in revenues."[60] Again, however, the plaintiffs have lacked proof of this so-called injury to the marketplace and how that injury impacts them, despite their claims that these practices have created a "'race to the bottom,' wherein additional companies feel economic pressure to similarly track users'[] whereabouts to…avoid losing further market share."[61] Courts, naturally, have been hesitant to agree with these arguments without any proof of the market engaging in a 'race to the bottom,' making it difficult for consumers to establish their standing in court. All they can show is that their apparent need for the latest smartphone or iPad has forced them to buy a device that tracks their every movement.

Conclusion

Though Apple and Google spokesmen have promised that future software releases would require users to explicitly agree to the use of location services and would no longer back up the tracking logs,[62] the issue still remains a concern for users who want to keep their locations private.

Whether we like it or not, ultimately, we are to blame for allowing some of the nation's biggest corporations to track our movements. We have invited Big Brother into our lives because of our smartphone addiction. We are the ones regularly using GPS services to help us locate the nearest coffee shop, movie theater, or grocery store. We are also the ones who willingly sign up for FourSquare and other social media websites so that we can share our photos or interests with others. In the end, it is our own responsibility to police what information we release about ourselves…and what technology we use to do it.

Endnotes

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29. NY Civil Rights Law §50 (2000).
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31. *Protecting Mobile Privacy, supra* note 2 at ¶8 (statement of Justin Brookman, Dir. of Consumer Privacy Center for Democracy & Technology).
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Christy Foley is an attorney licensed to practice in both New York and Florida. She is currently the professor for a negotiations course and the adjunct professor for an entertainment law course at Full Sail University in Winter Park, FL. She received her J.D. from CUNY School of Law and her B.S. from Boston University. She is also a smartphone user. She may be reached at ChristyFoley@gmail.com.

Crowdfunding: Trends and Developments Impacting Entertainment Entrepreneurs

By Ronald L. Barabas

In 1913, a young man named Oscar Micheaux financed the printing of his autobiographical first novel with door-to-door advance sales of the still-unpublished work to his neighbors. He pitched them with a sample chapter and his considerable sales skills. Successful in this and a subsequent literary effort, Micheaux, a self-made African-American entrepreneur born to freed slaves, sought to produce the first feature length motion picture featuring African-American milieu and actors. Hollywood film studios would not undertake anything like this for many years to come. In order to accomplish this unprecedented, expensive adaptation of his first novel, Micheaux formed a corporation for film productions and sold shares of stock directly to the public. He drafted an investment brochure himself and personally solicited investments in company shares, priced at $100 each.[1] The more than $10,000 received from Micheaux's initial capital-raise helped lead to some of the most groundbreaking cultural contributions in American history.

Micheaux was a pioneer of what people today call "crowdfunding." Yet if someone from 1933 through the present time (as of this writing) were to solicit investments as Micheaux had, whether in person or online, that person would likely be stopped by and face sanctions from the Securities and Exchange Commission (SEC). Forthcoming rules from the SEC will change this by permitting and governing the online sale of unregistered securities, although it will be nowhere near as simple as it was in Micheaux's day.

On April 5, 2012, President Obama signed the Jumpstart Our Business Startups (JOBS) Act into law, which included the Capital Raising Online While Deterring Fraud and Unethical Non-Disclosure Act of 2012 (the Crowdfund Act or the Act).[2] The Crowdfund Act will ease the restrictions that had limited the ability of entrepreneurs, including artists, to finance their projects by raising small amounts of money from everyday investors online. Although securities cannot be offered for sale under the exemption from registration created by the Act (the crowdfunding exemption) until the SEC completes its rulemaking,[3] the Act will soon impact many entertainment entrepreneurs seeking funds to finance films and other artistic endeavors, as well as their legal advisors.

1. Crowdfunding Basics

Crowdfunding can be defined as a collective effort to pool money, popular today through the Internet, to support a project, cause or organization.[4] It has become an increasingly common and effective way for entrepreneurs and artists to finance business and creative endeavors, making it easy to solicit financing from anyone with Internet access and available capital. U.S. securities laws prior to the Crowdfund Act, however, had severely limited the full possibilities of crowdfunding to stimulate entrepreneurship.

A security is an investment of money in a common enterprise, with an expectation of profits arising from the efforts of others.[5] When a security is offered to the public over the Internet or through other means, the offering party is required to meet registration and ongoing disclosure requirements with the SEC. While this serves the public interest in helping guard against potential fraud, the time and expense involved in meeting these requirements make public offerings impractical for almost all start-ups and small businesses. There are several exemptions to the public registration requirement, but prior to the Crowdfund Act, none would apply to a crowdfunding equity model where a financial stake in a business or project could be promoted online to the general investing public.

Online crowdfunding initiatives have thrived despite the prohibition of offerings in unregistered investment opportunities. Artists, entrepreneurs and non-profits successfully use four non-equity Internet crowdfunding models that circumvent securities regulation. They are: (1) the rewards model; (2) the pre-payment model; (3) the donation model; and (4) the loan model.[6]

The first three crowdfunding models can best be explained with a simple example. A musician wants to raise funds to finance the recording of an album. She sets up an account on a popular crowdfunding website like Kickstarter[7] and offers to send a copy of the finished album to anyone that has paid, in advance, $10 or more. This is the pre-payment model.[8] In the same listing, she offers to write a song about anyone who pledges $500 or more (the rewards model) and also accepts donations in any amount (the donation model, where there is no expected return, is more commonly used for charitable causes). None of these is a situation in which the financial backer has an expectation of profit, and therefore no securities registration is needed.

The loan model has two important different variations. On sites like Kiva,[9] lenders select a project to help finance and their loans are repaid to them without interest when the borrower makes repayments. Like the other non-equity models, offering individuals the opportunity to provide an interest-free loan does not trigger registration requirements since the lender has no expectation of profit. The SEC has, however, indicated that registration would be required for interest-bearing crowdfunding notes and loans,[10] the other variety of the loan model.

2. The New Equity Crowdfunding Model

At a time when agreement among the major political parties is rare, it took a compelling group of economic and political factors to bring lawmakers to a consensus on opening up the equity crowdfunding model. Foremost among these was the increased difficulty of financing for seed-stage start-ups. Banks have drastically altered their approach to small business lending since the financial crisis, and sophisticated investors are investing in later-stage emerging companies with greater regularity.[11] Entrepreneurs need an alternative to traditional capital markets to fund their growth, and the job market needs a boost from small business hiring that access to new sources of capital could provide. This, combined with the proven success of other crowdfunding models, helped the issue pick up steam.

The challenge with crowdfunding is to create a regulatory framework that unlocks its full economic-stimulus possibility while mitigating the serious risk of fraud that comes with easing restrictions on the public solicitation of investment opportunities online. The SEC is charged with adopting and enforcing rules required to implement the Act that are due within 270 days of its signing into law (i.e., before January 1, 2013), but the Act itself provides baseline rules that include a combination of funding caps, rules governing websites that offer securities under the crowdfunding exemption, and targeted disclosure and reporting obligations. Specifically:

- It sets a $1 million cap on the amount that can be raised over a 12-month period by an issuer offering unregistered securities under the crowdfunding exemption. Any securities sold by the issuer, whether under the crowdfunding exemption or not, count toward this $1 million limit.
- It sets a cap on the amount each investor can invest in a single offering made under the exemption, with different limits based on investors' annual income or net worths.
  - Investors with annual incomes or net worths of less than $100,000 may invest an amount equal to no more than 5% of their annual incomes or net worths (or up to $2,000 for investors with annual incomes or net worths less than $40,000).
  - Investors with annual incomes or net worths of $100,000 or more may invest an amount equal to no more than 10% of their annual incomes or net worths, up to a maximum amount of $100,000.
- It requires that transactions entered into under the crowdfunding exemption be conducted through an intermediary that meets requirements set out in the Act. Such intermediaries must register with the SEC as a "funding portal," conduct background checks on the officers, directors and significant (20% or more) stockholders of the issuer, announce a minimum financing target pursuant to which funds will only be disbursed to the issuer once reached, and screen investors with questions designed to demonstrate sufficient financial acumen to appreciate the unique risks of an investment in securities under the crowdfunding exemption.
- It requires that the issuer file certain basic information about itself with the SEC and make a variety of other disclosures available to its intermediaries and investors, including its intended use of the proceeds and certain financial information (the extent of which depends on the overall amount of financing the issuer has sought under the crowdfunding exemption over the past 12 months).

Each of these requirements and others will be further elaborated on in the forthcoming SEC rules, which will determine the complexity of the funding portal registration process and, in effect, when securities can start being offered under the crowdfunding exemption.

Other key features of the Act limit the resale of securities purchased under the exemption, prohibit issuers from advertising the terms of an offering and provide a remedy for investors harmed by an issuer or intermediary's material misstatements or omissions. One challenge the SEC must consider is its fraud prosecution strategy where, with potential damages that may often be very small, victims may not have the financial incentive to incur the expense of seeking legal redress. States, however, will also be able to take action against issuers and intermediaries for fraud, despite the Act's preemption of state blue sky laws.

Besides fraud, there are other investor protection issues that may be difficult for the SEC to address. In a typical seed investment, lawyers, financial advisors and other representatives of the investor negotiate tagalong rights and other preferences to make sure that early-stage investors' interests are not diluted. Without these protections, a seed-stage company can completely dilute early investors as it moves on to later-stage capital raises. The Act anticipates this concern, requiring that the issuer provides a description of its capital structure and the terms of the offering, including how crowdfunding investors "may be materially limited, diluted, or qualified by the rights of any other class of security of the issuer." Nonetheless, it will be a major challenge for disparate small investors to replicate the leverage and sophistication that enables an "angel investor" to receive offering terms that merit its capital risk.

3. Crowdfunding and the Arts

While small business hiring and commercial innovation are the most common themes used to tout the Crowdfund Act, the Act is also likely to have a profound impact on the arts. Crowdfunding already has a special role in the creative community for a variety of reasons. Audience taste is extremely difficult to predict, and crowfunded creative projects benefit from public feedback before production begins. They go forward when enough potential consumers (who are also likely to promote it to others) use their money to express interest and belief in a project, in contrast to hierarchical decision-making. Independent contributors are also free from public relations and corporate conflict concerns that can otherwise hinder financial support for unorthodox works.

First-time filmmakers and other less-established artists have historically had even fewer legal financing options than other entrepreneurs. Angel investors or banks will rarely finance a creative project helmed by a novice. Before websites like Kickstarter and Indiegogo[12] came along, friends, family, personal savings and credit cards would often be the only way to fund such an independent endeavor.

These platforms are still likely to thrive once the crowdfunding exemption takes effect. While much less onerous than the requirements around a public offering, complying with the Crowdfund Act and forthcoming SEC rules will still require significant care and expense. Retaining full control over a project successfully funded by a Kickstarter or similar campaign will also appeal to many artists over the challenges of dealing with stockholders from an issuance under the crowdfunding exemption. Additionally, currently active contributors are unlikely to begin supporting only those projects that have the possibility of profit, particularly when being presented with information on how risky such an investment is. These individuals fund the arts for various reasons other than an expectation of profit.

In many cases, however, issuing securities under the crowdfunding exemption will be the preferred method of financing a film or other creative project. It will be of particular interest to those filmmakers and other artists with projects that are more commercially oriented and have substantial budgetary requirements.

In comments to the SEC, prominent entertainment attorney and author Mark Litwak made the case that the forthcoming rules should consider certain differences between films and other creative endeavors relative to "traditional businesses."[13] Litwak's suggestions for film financing under the crowdfunding exemption include:

- Requiring filmmakers to rigorously document and report expenditures, including a limit that only 10% of the funds raised are used for cash payments (with all other expenses to be paid by check or credit card so that there is a record);
- requiring that a script or synopsis, line item budget and deadline for completion be provided to potential investors, that a final cost report is issued to investors on completion and that updates to investors are provided every 90 days until the film is released; and
- taking into account the entirely speculative nature of forecasting a film's success and the limitations on an inexperienced filmmaker's ability and means to provide audited financial statements.

Such distinctions could help facilitate the use of the crowdfunding exemption for films and other creative works while further protecting investors from fraud and better educating them in the unique risks of film investing.

4. Conclusion

Anyone considering offering stock under the new exemption will need to carefully review the Act, the forthcoming SEC rules and other guidance, consider the costs against other funding alternatives and consult an attorney. Despite the expenses and challenges, the crowdfunding exemption could have broad implications on the arts and development of artists. As Oscar Micheaux proved almost 100 years ago, crowdfunding can lead to great things.

Endnotes

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Ronald L. Barabas, Esq. is an Associate at Di Santo Bowles Bruno & Lutzer LLP. His practice is focused on corporate and entertainment law. He can be contacted at rbarabas@disantobowles.com.

Cult Brands and Trademark Dilution

By Alena Benowich

This article focuses on the intersection between trademark dilution and cult brands to determine whether cult brands require and should be afforded additional protection under trademark law. Upon surveying several recent cases involving ultra-famous brands, it is clear that while unpredictable in its interpretation and application, trademark dilution theory provides famous brands limited protection against the most egregious dilutive uses of their marks and still allows for free speech to go largely uninhibited. The structure is in place for cult brand owners to use trademark law successfully, but the onus is on brands to develop systems and policies to protect and maintain brand integrity and distinctiveness to use dilution theory effectively.

I. Introduction to Brand Fetishism and Cult Brands

Brand fetishism refers to the "phenomenon of perceiving trademarks as spiritual entities rather than as informational devices."[1] Brand fetishism is the fullest expression of consumer loyalty: consumers perceive and personify brands. The brands are viewed as possessing personalities, embodying ideals and values, and providing sources of emotional community and ritual.[2] Although today's logo-mania consumer culture suggests that brand fetishism may be stronger than ever before, the brand fetishism phenomenon can be traced to the Twentieth Century. As corporations produced more products in less time, they had to manufacture desire to increase demand and market growth, and keep their factories open.[3] Marketers realized that emotional appeals to consumers would best achieve their goals, so they developed personified brands and "quasi-personal" relationships between consumers and brands emerged.[4] Several marks that first appeared between 1860 and 1925 continue to enjoy and benefit from powerful brand identities today. To name a few, these include: Borden's Eagle Brand condensed milk, Vaseline, Levi Strauss's overalls, Quaker oats, Ivory soap, Kodak cameras, Del Monte canned fruit, Wrigley's gum, Nabisco cookies, Gillette razors, Baker's chocolate, Lipton teas, Campbell's soup, Colgate toothpaste, and Coca-Cola.[5] These brands began as centered around core products, and have since expanded successfully. They illustrate the foundations for cult mentality and consumer loyalty.

In his book on branding, Douglas Atkin analogizes iconic brands to cults because they offer consumers a sense of identity and belonging.[6] He describes cult brands as quasi-religious entities that we align ourselves with and subscribe to by purchasing products and participating in brand culture:

> Today's most successful brands don't just provide marks of distinction (identity) for products. Cult brands are beliefs. They have morals—embody values. Cult brands stand up for things. They work hard; fight for what is right. Cult brands supply our modern metaphysics, imbuing the world with significance. We wear their meaning when we buy Benetton. We eat their meaning when we spoon Ben & Jerry's into our mouths. We get inside a company's worldview and fly their meaning when we step onto a Virgin plane, we shop their meaning when we check out at Whole Foods. Driving a Mini is becoming as political as fighting gas-guzzling SUVs via the Sierra Club. Brands function as complete meaning systems. They are venues for the consumer (and employee) to publicly enact a distinctive set of beliefs and values.[7]

Atkin asserts that to maintain cult status, the cult brand must "continually commit to its customers, renew its beliefs with real product and service experiences every quarter."[8] Thus cult-maintenance involves mutual participation of brands and consumers. Similarly, Douglas B. Holt describes managing an iconic brand as a "juggling act," identifying three brand "constituencies" that must be balanced: (1) the *followers*, who identify strongly with the brand's myth; (2) the *insiders*, a smaller group with considerable influence on followers; and (3) the *feeders*, those who are superficially connected to the brand, who view the brand as a status symbol or vehicle to building social ties.[9] Survey evidence shows that brand loyalty is so strong that consumers continue to support their chosen brands even after experiencing that alternatives taste better, work better, or are superior.[10] Consumers who participate and buy into a brand's core beliefs by purchasing, displaying, or wearing brand merchandise are less likely to abandon the brand, even when the brand might have otherwise disappointed them.[11]

According to Atkin, the brand management power has shifted, and in order to thrive brands must share ownership with consumers.[12] Brands nourish relationships with consumers to maintain cult status, and consumers—who go to great lengths to solidify and communicate their brand loyalty—rely on brands for their critical personal and expressive functions. For example, Harley Davidson devotees frequently tattoo the logo onto their bodies, quite literally branding themselves as supporters.[13] Thus, brand fetishism allows brands to capitalize on their name-recognition and their brand-personalities, but also invites additional engagement with consumers. Naturally, brand owners are legitimately concerned about maintaining control over the meaning and message of the brands in which they invest heavily.

In addition to the threats posed by this constant interaction between brand and consumer, some scholars raise concerns that cult brands damage and undercut the distinctiveness of their own brands through "ubiquity."[14] The theory goes that if, by definition, cult brands stand for many things and cannot signify one thing alone, then brand owners actively dilute their own brands by associating themselves with several products, goods, or images.[15]

II. Dilution Theory

A. Background

Initially, trademarks served to identify the producer of a particular good. By the second half of the Nineteenth Century, trademark functions evolved beyond their initial source-identifying purpose. In his seminal article introducing trademark dilution theory, Frank Schechter observed, "The true functions of the trademark are, then, to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public."[16] Schechter described dilution as "the gradual whittling away" of a mark or name by its use upon non-competing goods. As he further explained, "[t]he more distinctive or unique the mark, the deeper is its impress upon the public consciousness, and the greater its need for protection against vitiation or dissociation from the particular product in connection with which it has been used."[17]

Dilution theory is now considered "a cause of action invented and reserved for a select class of marks —those marks with such powerful consumer associations that even non-competing uses can impinge on their value."[18] Put another way, dilution of a mark occurs when use of a similar mark by another forces consumers to work harder to remember the original mark and place it with its associated goodwill.[19] Schechter's radical idea enjoyed limited but increasing support from courts that began to expand infringement to include situations where confusion was likely,[20] but it was not statutorily embraced as a legal doctrine until decades after his article was published.[21] Through anti-dilution protections, trademark law currently serves consumers and trademark owners simultaneously.[22]

B. Statutory Framework

States began embracing the notion of dilution before the federal government signed on to the concept. In 1964, after a handful of states had already enacted anti-dilution statutes, the United States Trademark Association, now known as the International Trademark Association (INTA), drafted a Model State Trademark Bill (1964 Model Bill) including anti-dilution provisions.[23] It provided that the "likelihood of injury to business reputation or of dilution of the distinctive quality of a mark" was grounds for injunctive relief, regardless of competition between the parties or source confusion.[24] Fourteen states enacted versions of this model focused on protecting a mark's distinctiveness, including New York, California, Massachusetts, and Texas.[25]

In 1992, the 1964 Model Bill underwent significant revisions. The 1992 Model Bill required that a plaintiff's mark be famous and eliminated the "likelihood" of dilution standard.[26] In determining whether a mark satisfied the requisite fame threshold, the 1992 revision set forth these non-exhaustive factors for courts to consider: (1) degree of inherent or acquired distinctiveness of the mark in the state; (2) duration and extent of use of the mark in connection with goods and services; (3) duration and extent of advertising and publicity of the mark in the state; (4) geographical extent of the trading area in which the mark is used; (5) channels of trade for the goods or services with which the mark is used; (6) degree of recognition of the mark in its own and in the other's trading areas and channels of trade in the state; and (7) nature and extent of use of the same or similar mark by third parties. Twenty-five states adopted anti-dilution statutes based on the 1992 Model Bill, including Florida, Illinois, New Jersey, and Pennsylvania.[27]

With groups of states operating under inconsistent statutory regimes, the scope of protection for national brands was unclear. Congress crafted and enacted the Federal Trademark Dilution Act (FTDA) in 1995 to address these concerns. Amending the Lanham Act to include federal anti-dilution protection for qualifying trademarks, the FTDA was, at least in part, meant to prevent brands from forum shopping for injunctive relief by providing more uniform protection.[28] The FTDA provided that the owner of a famous mark was entitled to enjoin another person's commercial use of a mark if its use began after the mark had become famous and it caused dilution to the distinctive quality of that mark.[29] Among other things, the FTDA set out eight discretionary factors for courts to consider in determining whether a mark had achieved famous status, largely based on the 1992 Model Bill's factors.

Following an unpopular Supreme Court decision, *Moseley v. V Secret Catalogue*, which created uncertainty as to many provisions in the FTDA, Congress amended the Lanham Act once again in 2006. With the Trademark Dilution Revision Act of 2006 (TDRA), Congress defined when a mark is "famous." Congress provided, "a mark is famous if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner."[30] The TDRA urges courts to consider "all relevant factors," but only enumerates four: (i) the duration, extent, and geographical reach of advertising and publicity of the mark, whether advertised or publicized by the owner or third parties; (ii) the amount, volume, and geographic extent of sales of goods or services offered under the mark; (iii) the extent of actual recognition of the mark; and (iv) whether the mark is registered.[31] The TDRA also expressly provided for injunctive relief where dilution threatened the distinctiveness of the famous mark, whether by blurring or tarnishment.[32]

To summarize, despite the enactment of federal legislation, anti-dilution protection still lacks uniformity and predictability. In those states that track the 1992 Model Bill requiring fame, niche fame—fame within a geographic region or market —may be sufficient to satisfy the requirement.[33] This makes some state courts better venues for non-famous plaintiffs to seek anti-dilution protection and remedies. However, in states following the 1964 Model Bill, which does not expressly require fame, some courts have nonetheless required proof of fame because of the closeness in language of the 1964 Model Bill and the FTDA.[34]

In the federal context, as compared to the FTDA, the TDRA both narrows and broadens the scope of marks eligible for anti-dilution protection. The TDRA eliminates the concept of niche fame by defining fame as national recognition, thus narrowing the pool of qualifying marks. At the same time, the TDRA makes anti-dilution protection available to marks whether they are inherently distinctive or have acquired distinctiveness.[35] Thus, for a smaller class of marks, federal dilution protection may be broad and substantial.

III. Applying Dilution Theory

Even though anti-dilution regulations, like those described above, have existed for years, courts have approached and enforced them with difficulty and inconsistency. Court opinions analyzing the TDRA reveal that there is still much confusion and disagreement about dilution theory and its function in protecting famous marks from dilutive uses by others. To state a claim for dilution under the TDRA, a plaintiff must show: (1) that it owns a famous mark that is distinctive; (2) that the defendant commenced using a mark in commerce that dilutes the plaintiff's mark; (3) that a similarity between the two marks gives rise to an association between the marks; and (4) that the association is likely to impair the famous mark's distinctiveness or is likely to harm its reputation.[36]

Of these two forms of dilution, tarnishment is a fairly straightforward concept: it occurs "when the plaintiff's trademark is linked to products of shoddy quality, or is portrayed in an unwholesome or unsavory context likely to evoke unflattering thoughts about the owner's product."[37] Dilution by blurring is a much more complicated and perplexing doctrine, which has received varied treatment among the courts analyzing its merits. Dilution by blurring is: "the whittling away of the established trademark's selling power and the value through its unauthorized use by others."[38] The TDRA sets forth six factors to consider in determining whether blurring has occurred: (i) the degree of similarity of the marks; (ii) the degree of the famous mark's inherent or acquired distinctiveness; (iii) the extent to which the famous mark's owner engages in substantially exclusive use of the mark; (iv) the famous mark's degree of recognition; (v) whether the user intended to create an association with the famous mark; (vi) any actual association between the marks.[39]

Although the TDRA was meant to provide some consistency and predictability for nationally recognized brands in protecting their marks from non-competing, unauthorized, dilutive uses, the inconsistent application of the TDRA has failed to provide famous brands with these assurances.

A. The Fame Requirement

The degree of fame of a plaintiff's mark has been a critical threshold requirement in establishing a claim for trademark dilution. Fame has been described as dilution's "key ingredient" because the prerequisite that "most narrows the universe of potentially successful claims is the requirement that the senior mark be truly famous before a court will afford the owner of the mark the [TDRA's] vast protections."[40] In 1987, a Lanham Act amendment recommendation proposed that dilution protection should be limited to "those [marks] which are truly famous and registered."[41] This concept was ultimately incorporated into federal anti-dilution regulation.

Since the enactment of the FTDA, courts have held that for a mark to be sufficiently famous to merit protection of federal anti-dilution protection, a mark must be "truly prominent and renowned."[42] Courts analyzing the degree of fame of trademarks under the new TDRA have stayed true to this conception and have relied on the TDRA legislative history for guidance and confirmation in so doing. These courts underscore that Congress intended to protect those marks with a particular "aura."[43] As they interpret the legislative history of the TDRA, the harm of dilution is "when the unauthorized use of a famous mark reduces the public's perception that the mark signifies something unique, singular, or particular."[44]

While the TDRA's definition of fame is explicit, the degree of recognition the mark must benefit from is still not entirely clear. "Widely recognized by the general consuming public of the United States" suggests a high level of national recognition.[45] Generally, marks that are considered household names have been found to satisfy the famousness requirement. In surveying post-TDRA decisions, the following 10 marks are among those that have been deemed famous: Nike,[46] Pepsi,[47] Visa,[48] Louis Vuitton,[49] Hershey,[50] Diane Von Furstenberg,[51] Burberry,[52] Ford Motors,[53] Starbucks,[54] and Victoria's Secret.[55]

As the fame of these brands is largely undisputed in litigation, many opinions do not devote extensive attention to their fame analysis. The *Visa* case provides a well-reasoned, though unsurprising, illustration of fame analysis under the TDRA. In finding the VISA mark famous as a matter of law, the court approached each factor in turn.[56] First, the court observed that Visa's more than $1 billion spent on advertising in the United States, and use of the mark in over 300 countries, weighed strongly in Visa's favor on the advertising-and-publicity factor.[57] Second, Visa showed that its cards were used in $1.3 trillion of sales made in the United States in 2006, and that its cards were accepted in 6.3 million locations in the country. The court held that Visa "clearly met" the extent-of-sales factor.[58] Third, expert survey evidence—which showed that 99% of respondents were aware of Visa cards and 85% identified Visa when asked to think of brand payment cards—also weighed in Visa's favor on the actual recognition factor.[59] As to the fourth factor, mark registration, the court cited Visa's 56 federal trademark registrations.[60] This analysis illustrates well how truly famous brands can fare with the help of objective data under the TDRA's famous standard.

In less obvious examples of brand fame, courts have shown a reluctance to make fame determinations on summary judgment. For example, in *Dan-Foam A/S v. Brand Named Beds, LLC*, the court found that the famousness of the TEMPUR-PEDIC mark was "too close to call."[61] There, the court acknowledged the plaintiff's "considerable" advertising and publicity of the mark, observing, "[t]he brand is a highly regarded, distinctive, and widely known identifier of high quality, therapeutic mattresses, pillows, pads, cushions, slippers and other similar products."[62] However, the court also noted that the parties had not yet offered consumer surveys to establish the mark's degree of actual recognition and that there was little evidence regarding the volume and extent of sales under the TEMPUR-PEDIC mark.[63]

Thus, in determining whether a plaintiff's mark meets the famousness threshold, those companies with the means to invest in extensive media campaigns and corporate sponsorships, and those that can provide quantifiable evidence of their fame, make the court's determination of the threshold requirement easy. However, despite the usefulness and objectivity in relying on advertising and publicity as an indicator of the fame of a mark, Professor Barton Beebe warns that if the degree of publicity is given an "overly prominent role" in the consideration, the fame test will just reward investments in advertising.[64] In empowering courts to look at publicity by third parties in addition to mark owners, the TDRA theoretically addresses this concern, and makes it easier for trademark owners to establish fame, because advertising and publicity by third parties will count in the mark holder's favor.[65]

B. Dilution's Other Elements

As courts analyze claims of trademark dilution, the famous marks threshold is important, but it is not definitive. For brands with iconic or cult status, the fame requirement is easily met, but this does not mean the court will necessarily find in the famous mark holder's favor. Of the 10 "famous" brands mentioned above, there has been a near even split in the outcomes of their dilution cases.

1. Cases in Which Plaintiffs Have Lost

1.1. Louis Vuitton: In *Louis Vuitton Malletier S.A. v. Haute Diggity Gog, LLC*, the Fourth Circuit was one of the first appellate decisions to address dilution under the TDRA. There, the defendant produced and sold dog chew toys that evoked Louis Vuitton's handbags. The products bore "Chewy Vuiton" and "CV" marks. Unfortunately for Louis Vuitton, Haute Diggity Dog's (HDD) toys were deemed successful parodies. Agreeing with the district court that HDD's parody was successful affected the Fourth Circuit's analysis of the TDRA's likelihood of dilution factors. Most notably, the court remarked, "a successful parody might actually enhance the famous mark's *distinctiveness* by making it an icon."[66] In equating fame and distinctiveness, the court said, "[t]he brunt of the joke becomes yet more famous."[67] By its calculations, Louis Vuitton actually benefited from increased publicity associated with HDD's toys. The court also held that because the LOUIS VUITTON mark is "particularly strong and distinctive," the parody was even less likely to impair its distinctiveness.[68] Thus, the strength of the mark and its distinctiveness actually served to cut against the dilutive effect of HDD's parodies.

While the Fourth Circuit may be correct in assuming that the HDD toys created another occasion for consumers to be reminded of Louis Vuitton, the close association between the marks made memorable by the parody is a two way street: just as the HDD toys call to mind Louis Vuitton, the LOUIS VUITTON mark is no longer singularly associated with its products, but will also remind consumers of the clever parody. The Fourth Circuit's reasoning reveals a critical issue that is difficult for cult brands to overcome in dilution cases: that a successful parody may be perceived as innocuous and non-dilutive, if not beneficial, to the brand. Of course, as the Fourth Circuit clarified, not all parodies will be treated the same way.[69] Where a parody is less successful at simultaneously communicating that it is making fun of the famous mark and is not the famous mark itself, or where it uses the actual mark, a parody might still be a viable ground for dilution.

1.2. Victoria's Secret: In *V Secret Catalogue, Inc. v. Moseley*, an army colonel saw an advertisement for the defendant's retail store selling "adult novelties / gifts" under two marks: VICTOR'S SECRET and later, VICTOR'S LITTLE SECRET. On remand from the seminal Supreme Court decision, the district court held that Victoria's Secret failed to establish likelihood of dilution by blurring.[70] Strangely, the district court found that the factors favored Victoria's Secret, and acknowledged that the Sixth Circuit described the circumstances as "a classic instance of dilution by tarnishing (associating the Victoria's Secret name with sex toys and lewd coffee mugs) and by blurring (linking the chain with a single, unauthorized establishment)."[71] Nonetheless, the district court held that "[t]he choice of name and presentation by the Moseleys being just slightly different from the Victoria's Secret mark, conjured the association with the famous mark, but fell short of blurring its distinctiveness."[72] Further, the court seems to have confused confusion analysis with blurring, because it emphasized that the army colonel who brought the ad to the plaintiff's attention was not confused about whether the marks were related or associated.[73]

On Victoria's Secret's tarnishment claim, the court referred to the army colonel's reaction in holding that the defendant's mark suggested a likelihood that the plaintiff's reputation would be tarnished. The court characterized the consumer as "offended" and observed that he believed the use was "a bastardization of the Victoria's Secret mark, for the promotion of 'unwholesome, tawdry merchandise.'"[74] Ultimately, the court may have been reluctant to find in the plaintiff's favor on both grounds of dilution. As the tarnishment claim was stronger, the court reached a questionable result on the blurring claim.

1.3. Starbucks: On remand from the Second Circuit, the district court in *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.* found that the defendant coffee company's use of three different marks incorporating the CHARBUCKS mark—MISTER CHARBUCKS, MR. CHARBUCKS, and CHARBUCKS BLEND—were not likely to dilute the STARBUCKS mark.[75] Of the six factors, the court only needed to focus on the degree of similarity of the marks and evidence of actual association between them. The other four factors had already been determined to weigh in favor of Starbucks.[76]

In examining the similarity between the marks, the court emphasized that because the CHARBUCKS mark was used exclusively in conjunction with the "Mister," "Mr." and "Blend" terms, these additional terms constituted relevant evidence of distinguishing contextual features between the marks that it could not ignore. It held that the similarity between the marks was "minimal."[77] In assessing actual association between the marks, the court cited Starbucks's survey evidence, but minimized its effects. The survey showed that 30.5% of respondents associated the CHARBUCKS mark with Starbucks, and 9% associated it with coffee. The court described that the percentage of respondents who indicated a mental association between the marks was "relatively small."[78] The court seemed to rely on the fact that the survey did not gauge how consumers would react to the mark "as they are actually packaged and presented in commerce" as support for its characterization.[79]

Interestingly, the court weighed these two factors more heavily than the other four, which were resolved in Starbucks's favor. The court based its decision that these two factors are "obviously important factors" on the statutory language, holding, "[t]he statutory language leaves no doubt in this regard—dilution '*is association arising from the similarity* between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.'"[80] Since the statute does not guide the court to weigh any factor more heavily than the others, it seems arbitrary for the court to do so and to justify its decision on statutory language. That the statute expressly enumerates six factors should also be considered statutory language, and thus undercuts the court's reasoning here.

1.4. Ford: In *National Bus. Forms & Printing, Inc. v. Ford Motor Co.*, Ford sued to enjoin a commercial printer from reproducing Ford's marks for its customers as part of its printing business services. The Fifth Circuit followed reasoning adopted previously by a federal district court in *Rosetta Stone Ltd. v. Google Inc.*, denying Ford dilution protection.[81] The court held that the defendant did not "use" Ford's marks, as contemplated by the TDRA, to identify or distinguish its own services.[82] Finding that the printer's business also did not infringe on Ford's marks, Ford was left entirely without relief.

2. Cases in Which Plaintiffs Have Won

2.1. Diane von Furstenberg: In *Diane Von Furstenberg Studio v. Snyder*, Diane von Furstenberg (DVF) sued a counterfeiter who sold counterfeit DVF dresses on eBay.[83] In granting DVF relief at summary judgment on its dilution by tarnishment claim, the court observed that the parties did not dispute that the defendants chose to use DVF's exact mark to capitalize on the mark's fame. The defendants argued that its products were not of "shoddy quality."[84] The court disagreed with the defendants, finding that the DVF mark on "the inferior-quality" dresses was likely to dilute the DVF mark.[85]

2.2. Nike: In *Nike, Inc. v. Nikepal Intern., Inc.*, Nike sought an injunction to prevent the defendant from using the term "Nike" in its trademark, and sought a reversal of the TTAB's ruling allowing Nikepal to register its NIKEPAL mark over Nike's objection.[86] The defendant company provided goods and services to science laboratories. In analyzing the blurring factors, the court concluded that the marks were "nearly identical," despite the court's emphasis that the defendant's mark was a composite with "Nike" serving as the dominant feature of the mark. Unlike the *Starbucks* court described above, the court followed the Ninth Circuit's line of reasoning,[87] stressing the similarity of the marks and the survey evidence that the defendant's target customer base perceived the marks as "essentially the same."[88] The court also cited an expert survey that determined a significant number of the defendant's potential consumers actually associated NIKE with NIKEPAL.[89] The court observed that 87% of respondents associated NIKEPAL with NIKE when asked: "What if anything, came to your mind when I first said the word Nikepal?"

In granting Nike's request for a permanent injunction against Nikepal, the court held:

> If relief is not granted to Nike under its dilution claim, it will face an escalating erosion of its famous mark and NIKE will lose its ability to serve as a source-identifying mark…. Although Nikepal will have to choose another name, Nikepal chose to use the NIKEPAL mark with full awareness of the existence and widespread use of the NIKE mark. Further, given that Nikepal's business is still relatively small, it should not be unduly burdensome for it to notify its customers of its name change. Finally, the public interest will not be disserved by the issuance of a permanent injunction against Nikepal. By preventing dilution of NIKE, the public can continue to rely on the NIKE mark serving its source designating function.[90]

Thus, it is clear that the court was sympathetic to the "slippery slope" rationale for protecting brands from dilution. This is akin to the conception of dilution as "death by a thousand cuts."[91]

2.3. Pepsi: In *PepsiCo, Inc. v. Wholesale, LLC*, the district court found that the defendant's bottle, can, and food canister safes infringed and diluted PepsiCo's marks.[92] After calling PepsiCo's marks "unquestionably famous as a result of their long use and Pepsico's extensive sale of products under [them]," the court summarily held that because the defendant's products were goods commonly associated with the concealment of illicit narcotics, the defendant's marketing and sale of its products under the PEPSICO marks was likely to dilute and tarnish them.[93] From the limited attention given to this section of analysis and the conclusory language the court adopted, it is apparent that the illegal context and content of the defendant's products contributed to the court's ease in finding for the plaintiff.

2.4. Hershey: In *Hershey Co. v. Art Van Furniture, Inc.*, the defendant launched an advertising campaign on its website that invited customers to create designs for decorating their delivery trucks. One of the designs depicted a brown couch emerging from a wrapper reminiscent of a Hershey bar. Hershey alleged that the defendant initially sought to purchase a license from Hershey to use the design, which Hershey declined. The parties disagreed about whether the defendant actually operated any vehicles with the design.[94] The court found Hershey unlikely to succeed on the merits of its infringement claims, but found that Hershey sustained its burden in showing a likelihood of success on its dilution by blurring claim.

The court found the second, third and fourth factors were satisfied in the infringement analysis: the famous mark is distinctive, used exclusively by Hershey, and is widely recognized. The court further found a clear intention for the defendant to associate with the Hershey mark, but questioned whether the association actually occurred.[95] Discussing the first factor, the similarity between the marks, the court held: "Defendant's 'couch bar' design, with its stylized block lettering, its packaging in two elements, and especially its silver foil visible beneath the wrapper's sleeve, bears an unmistakable resemblance to some of Plaintiff's candy bar."[96]

As Hershey learned about the couch bar design online before it hit the streets on the defendant's delivery vans, the damage done was minimal. The court granted a temporary restraining order and preliminary injunction, enjoining the defendant from continuing to display the design on its website, but did not award damages. Interestingly, the offense committed by the defendant in this case seems relatively benign compared to the cases where famous plaintiffs lost. Perhaps the court was influenced by Hershey's brand enforcement policies, which enabled it to find the dilutive use quickly and before any considerable investment was made on defendant's behalf. This case might be viewed as an example of rewarding the plaintiff for its thorough and active brand maintenance approach, where the court serves as a piece of the plaintiff's own efforts to protect its brand and its investment.

2.5. Burberry: In *Burberry Ltd. v. Euro Moda, Inc.*, Burberry successfully enjoined the defendant from selling counterfeit Burberry merchandise bearing the Burberry mark.[97] The court held that the defendant's merchandise was made from substandard materials and contained manufacturing errors not found in authentic Burberry goods.[98] Since the Second Circuit adopts a broad view of tarnishment, the association of the Burberry marks with inferior quality products was sufficient for Burberry to make a showing of per se dilution by tarnishment.[99] That Burberry did not provide evidence of consumer surveys to establish actual dilution made no difference to the court. It held that Burberry satisfied the TDRA dilution by tarnishment standard, and would have satisfied even the more exacting standard under the FTDA.[100]

2.6 Visa: In *Visa Int'l Serv. Ass'n v. JSL Corp.*, Judge Kozinski—a judge well known as a free speech advocate—held that an Internet company called eVisa, which sold foreign language tutoring services, was likely to cause dilution by blurring of Visa's famous marks.[101] In comparing the marks, the court found that they were "effectively identical" and minimized the utility of the junior mark's inclusion of the prefix in distinguishing it from the senior mark.[102]

In an eloquent and clever opinion, Judge Kozinski described dilution as occurring when "consumers form new and different associations with the plaintiff's mark. 'Even if no one suspects that the maker of analgesics has entered into the snowboard business, the Tylenol mark will now bring to mind two products, not one.'"[103] The "quintessential harm" of dilution occurs when a single word becomes associated with two products in the marketplace, rather than one.[104]

The most interesting and important aspect of Kozinski's opinion is his discussion about whether word marks are sufficiently distinctive to deserve anti-dilution protection. As Judge Kozinski observed, these words may be weak marks—descriptive or suggestive—or may be in use by third parties already.[105] In determining whether VISA deserved protection, he emphasized that the context to be considered was the use of the word in commerce to identify a specific source. Judge Kozinski deemed Visa's use of the term sufficiently distinctive because it "plays only weakly off the dictionary meaning of the term" and because the defendant made no showing of third party trademark use of the term.[106] The court held that while the use of the word visa according to its dictionary meaning does not have a dilutive effect on the VISA brand mark, once it is used by another as a trademark in the commercial context, that use weakens the ability of the VISA mark to refer only to one product or service outside of its common usage.[107] The defendant argued that it used the word in such a way as to connote its common meaning, to which Visa could not claim exclusive use. Unconvinced, the court reiterated: "[T]hese allusions to the dictionary definition of the word visa do not change the fact that JSL has created a novel meaning for the word: to identify a 'multilingual education and information business.' This multiplication of meanings is the essence of dilution by blurring."[108]

2.7. Louis Vuitton: In *Louis Vuitton Malletier, S.A. v. Hyundai Motor America*, Louis Vuitton finally found some redemption and relief under trademark dilution law. In a post-Super Bowl commercial that allegedly commented on luxury, the defendant included a one-second image of a basketball decorated in a pattern resembling Louis Vuitton's trademark. At deposition, the defendant's advertising executives conceded that they closely approximated the LOUIS VUITTON mark to "represent luxury" and "borrow[] equity" from Louis Vuitton because it was the simplest way to reference the concept quickly.[109]

In its blurring analysis, the court found that each factor favored Louis Vuitton and that Hyundai failed to proffer any evidence in its favor.[110] The court's analysis on the exclusive use factor was significant and interesting. The court cited evidence of Louis Vuitton's more than 4,000 anti-counterfeiting raids and more than 26,000 anti-counterfeiting procedures to support its finding of Louis Vuitton's exclusive use.[111] Hyundai asserted that Louis Vuitton's use has not been exclusive, citing instances where musicians featured their marks and a licensing agreement with Tiffany & Co. to support their argument. The court minimized Hyundai's argument, concluding that "at most, Louis Vuitton had two minor lapses in enforcement."[112]

Acknowledging that most of the factors concerning Louis Vuitton's marks were fairly undisputed, the court devoted considerable attention to the final two factors, defendant's intent and actual association. Regarding intent, the court did not require evidence of bad faith; that Hyundai made a calculated effort to associate with Louis Vuitton as a symbol of luxury was sufficient to find in Louis Vuitton's favor.[113] On the actual association factor, the court cited expert testimony as evidence of actual association. For example, Hyundai's survey revealed that 30% of respondents stated that the basketball reminded them of Louis Vuitton, and Louis Vuitton's expert testified that of those respondents who recognized the design on the basketball as Louis Vuitton's, 62% believed that Louis Vuitton authorized Hyundai's use of the mark.[114] Interestingly, the court also cited multiple Twitter messages responding to Louis Vuitton's perceived involvement in the commercial as evidence of actual association between the marks.[115] Although the court claimed to afford "limited" weight to the Twitter messages,[116] it is an interesting and cutting-edge wrinkle to the analysis and highlights the ways in which consumers interact with and shape brands today.

IV. Conclusion

Ultimately, it is clear that cult brands are not without protection under the anti-dilution framework. The reality is, however, that even cult brands cannot fully exclude others from using their marks, or a mark they believe are similar. The cases in Part III.B.1 illustrate that in the dilution context, when marks are borrowed or appropriated by individuals or other entities as part of their own expression, there is little that mark holders can do to enjoin this type of expressive activity. After all, as a result of—or in exchange for cult status—these brands necessarily forfeit some level of control over their identities to consumers and the public. Thus, brands resort to trademark dilution theory to police their marks and promote brand integrity most effectively when they seek to enjoin the use of their marks by corporate entities.

Although the cases are largely split equally, the recent cases in Part III.B.2 that find in favor of cult brands suggest that initial resistance to granting famous brands anti-dilution protection may be waning. These cases make clear that if brands are to benefit from federal protection, it is incumbent upon them to implement and maintain aggressive brand maintenance approaches that they can point to in litigation. If brands are not careful, they run the risk of undercutting their distinctiveness and uniqueness and are likely to pay a steep price for their inattention.

Endnotes

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36. *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252, 264-65 (4th Cir. 2007).
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39. *Louis Vuitton Malletier S.A.*, *supra* note 36, at 266 (citing 15 U.S.C.A. § 1125(c)(2)(B)).
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46. *Nike, Inc. v. Nikepal Intern., Inc.*, 84 U.S.P.Q.2d 1820, 1826, 2007 WL 2782030 (E.D. Cal. 2007).
47. *Pepsico, Inc. v. #1 Wholesale, LLC*, 84 U.S.P.Q.2d 1040, 1042, 2007 WL 2142294 (N.D. Ga. 2007) ("[T]he PepsiCo Marks have become famous, represent extraordinarily valuable goodwill owned by PepsiCo and are among the most well-known and famous trademarks in the world.").
48. *Visa Intern. Service Ass'n v. JSL Corp.*, 590 F. Supp. 2d 1306, 1315-16 (D. Nev. 2008), *aff'd*, 610 F.3d 1088, 95 U.S.P.Q.2d 1571 (9th Cir. 2010).
49. *Louis Vuitton Malletier S.A.*, *supra* note 36, at 267. ("[I]t is readily apparent…that LVM's marks are distinctive, famous, and strong. The Louis Vuitton mark is well known and is commonly identified as a brand of the great Parisian fashion house, Louis Vuitton Malletier…. It may not be too strong to refer to these famous marks as icons of high fashion.").
50. *Hershey Co. v. Art Van Furniture, Inc.*, 08-14463, 2008 WL 4724756 (E.D. Mich. Oct. 24, 2008) ("Plaintiff is one of the largest producers of chocolate and confectionery goods, its products are sold around the world and it spends tens of millions of dollars annually to maintain and promote its products. Plaintiff is also protective of its brands and holds hundreds of trademarks…. These factors, combined with the iconic status of the classic Hershey's bar, prove that Plaintiff's mark is both famous and distinctive.").
51. The court failed to address the threshold issue at all, going straight to the question of dilution. At best, in its discussion of trademark infringement, the court analyzed DVF's mark to the Ralph Lauren polo player logo, as a strong and widely used mark of source identification. *Diane Von Furstenberg Studio v. Snyder*, 2007 WL 2688184, *3 (E.D. Va. Sept. 10, 2007).
52. *Burberry Ltd. v. Euro Moda, Inc.*, 2009 WL 1675080, *12 (S.D.N.Y. June 10, 2009).
53. *Nat'l Bus. Forms & Printing, Inc. v. Ford Motor Co.*, 671 F.3d 526, 536 (5th Cir. 2012) (noting the district court's conclusion that the Ford Oval and Script marks are both famous).
54. *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 01CIV.5981(LTS) (THK), 2005 WL 3527126 (S.D.N.Y. Dec. 23, 2005), *vacated*, 477 F.3d 765 (2d Cir. 2007) ("Here, there is no dispute as to the first three factors—the parties agree that (1) [t]he Starbucks Marks are 'famous' within the meaning of the [FTDA]") (internal quotations omitted).

55. *V Secret Catalogue, Inc. v. Moseley*, 558 F.Supp.2d 734, 739 (2008) (noting that the fame of the Victoria's Secret mark was affirmed on appeal).
56. *Visa Intern. Service Ass'n v. JSL Corp.*, 590 F. Supp. 2d 1306, 1316 (D. Nev. 2008), *aff'd*, 610 F.3d 1088, 95 U.S.P.Q.2d 1571 (9th Cir. 2010).
57. *Id.* at 1315.
58. *Id.*
59. *Id.*
60. *Id.* at 1316.
61. Brent A. Olson, *supra* note 18, at *3.
62. *Dan-Foam A/S v. Brand Named Beds, LLC*, 500 F. Supp. 2d 296, 323 (S.D.N.Y. 2007).
63. *Id.* at 323-24.
64. Fhima, *supra* note 45, at 653.
65. *Id.* at 654.
66. 507 F.3d at 267 (emphasis added).
67. *Id.* Relying on this decision, at least one court subsequently found that increased brand awareness and brand equity precluded the impairment of the distinctiveness of a plaintiff's marks. The court implied a causal link between the defendant's use of the mark and the plaintiff's increased brand recognition. Such an assumption is dangerous for brand owners because it wholly ignores the legitimate investment that Rosetta Stone made in its own brand, despite the unauthorized use by others. *See Rosetta Stone Ltd. v. Google, Inc.*, 730 F. Supp. 2d 531, 551 (E.D. Va. 2010).
68. *Id.*
69. See *id.* at 267-68.
70. *V Secret Catalogue, Inc. v. Moseley*, 558 F. Supp. 2d 734, 749-50 (W.D. Kentucky 2008). The court did, however, find that likelihood of dilution by tarnishment, and granted injunctive relief accordingly.
71. *Id.* at 749 (quoting *V Secret Catalogue, supra* note 70, at 477).
72. *Id.*
73. *Id.*
74. *Id.* at 750.
75. *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 2011 WL 6747431 (S.D.N.Y. Dec. 23, 2011).
76. *Id.* at *3.
77. *Id.*
78. *Id.* at *5.
79. *Id.*
80. *Id.*
81. In *Rosetta Stone*, the district court concluded that Google could not be held liable for trademark dilution because there was no evidence that Google used the plaintiff's marks to identify its own goods and services. 730 F. Supp. 2d 531, 551 (E.D. Va. 2010).
82. *Nat'l Bus. Forms & Printing, Inc. v. Ford Motor Co.*, 671 F.3d 526 (5th Cir. 2012).
83. *Diane Von Furstenberg Studio v. Snyder*, 2007 WL 2688184 (E.D. Va Sept. 10 2007).
84. *Id.* at *4.
85. *Id.*
86. *Nike, Inc. v. Nikepal Int'l, Inc.*, 2:05-CV-1468-GEB-JFM, 2007 WL 2782030 (E.D. Cal. Sept. 18, 2007).
87. In *Jada Toys, Inc. v. Mattel, Inc.*, 496 F.3d 974, 981 (9th Cir. 2008), the court held, "a reasonable trier of fact could find that the HOT WHEELS and HOT RIGZ marks are nearly identical. They both contain the word 'hot,' they both are accompanied by a flame, and they use similar colors; they also convey a similar meaning and connotation vis à vis their use of the modifier 'hot.'" Similarly, in *Porsche Cars North America, Inc. v. Spencer*, 2000 WL 641209, *3 (E.D. Cal. 2000), the court found that Porschesource.com was likely to dilute Porsche's famous mark.
88. *Id.* at *6.
89. *Id.* at *4.
90. *Id.* at *8.
91. See *Coca-Cola Co. v. Stewart*, 621 F.2d 287, 292 (8th Cir. 1980) ("It would imply that local infringers could pirate a national mark with virtual impunity from federal restrictions, inflicting "death by a thousand cuts" upon the trademark holder.").
92. *Pepsico, Inc. v. #1 Wholesale, LLC*, 07-CV-367, 2007 WL 2142294, at *3-5 (N.D. Ga. July 20, 2007).
93. *Id.*
94. *Hershey Co. v. Art Van Furniture, Inc.*, 08-14463, 2008 WL 4724756 (E.D. Mich. Oct. 24, 2008).
95. *Id.* at *15.
96. *Id.*
97. *Burberry Ltd. v. Euro Moda, Inc.*, 2009 WL 1675080, at *14.
98. *Id.*
99. *Id.* at *13-15.
100. *Id.* at *15.
101. *Visa Int'l Serv. Ass'n v. JSL Corp.*, 610 F.3d 1088 (9th Cir. 2010).
102. *Id.* at 1090.
103. *Id.* (citing *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 903–04 (9th Cir. 2002)).
104. *Id.* at 1091-92.
105. *Id.* at 1091.
106. *Id.*
107. *Id.* at 1092.
108. *Id.*
109. *Louis Vuitton Malletier, S.A. v. Hyundai Motor Am.*, 2012 WL 1022247 (S.D.N.Y. Mar. 22, 2012).
110. *Id.* at *12.
111. *Id.* at *8.
112. *Id.*
113. *Id.* at *9.
114. *Id.* at *11.
115. *Id.*
116. *Id.*

Alena Benowich graduated from Fordham Law School in 2012, where she was President of the student fashion law organization, Couture Counselor Student Society. She will be an associate at Greenberg Traurig in the Fall of 2012.

Dropping the Ball: Legal Issues in the NFL's Salary Cap Reductions

By Thomas Grove

Introduction

In early March, the National Football League (NFL) issued salary cap reductions against the Dallas Cowboys and the Washington Redskins.[1] In what was a perfect storm for the NFL, free agency began the next day,[2] Peyton Manning was searching for teams,[3] and the New Orleans Saints bounty scandal dominated the headlines.[4] The penalties went seemingly unnoticed, unless one was a fan of either team penalized, and they raise serious issues about fairness. This article will examine what the NFL did, why, and how. It will also discuss the legal arguments that the NFL and the teams could make to impose or to oppose the penalties.

Background

In March 2006, the NFL and NFLPA agreed to extend the Collective Bargaining Agreement (CBA).[5] Under the CBA, the "Agreement shall be effective from March 8, 2006 until the last day of the 2012 League Year," unless certain exceptions applied.[6] Article LVIII, Section 3(a) provided:

> Either the NFLPA or the Management Council may terminate both of the final two Capped Years (2010 and 2011) by giving written notice to the other on or before November 8, 2008. In that event, the 2010 League Year would be the Final League Year, and the Agreement would continue in full force and effect until the last day of that League Year.[7]

In May 2008, the NFL owners voted to opt out of the 2006 CBA.[8] Under Article LVI, "No Salary Cap shall be in effect during the Final League Year."[9] Further, under Section 2 of Article XXIV, "there will be no Guaranteed League-wide Salary, Salary Cap, or Minimum Team Salary in the Final League Year."[10] The owners had agreed to these provisions because it limited free agency, a position the NFLPA had opposed.[11] In contrast, the NFLPA believed that by having no salary cap, NFL teams would spend over the projected salary cap, resulting in a windfall for players.[12]

The 2010 Uncapped Season

Before and during the 2010 season, the NFL issued verbal warnings to all teams, instructing them to not pay salary in the uncapped year to limit their salary cap hits in future years.[13] The type of payment to the player determines what counts against the salary cap. Base salary is "all amounts the Team has paid or is obligated to pay as set forth in all Player Contracts of current and former players covering a particular League Year, including exercised options…."[14] Signing bonuses "shall be prorated over the term of the Player Contract, with a maximum proration of six years, in determining Team Player Salary."[15] According to the NFL, the Redskins and the Cowboys ignored the verbal warnings and structured deals that would push salary into the uncapped year, thus taking it away from future years.[16]

The Cowboys were penalized for the way they structured wide receiver Miles Austin's contract.[17] They signed Austin to a six-year, $54 million extension, with $18 million in guarantees.[18] He previously had a $3.168 million contract, making the total value of his new contract worth over $57 million over seven years.[19] The Cowboys structured the deal to give Austin $17 million in base salary during the 2010 uncapped year.[20] The NFL, which approves all player contracts, approved Austin's contract, even though it knew of the verbal warnings issued to the teams.[21]

The Washington Redskins used restructuring to prevent future cap hits on defensive tackle Albert Haynesworth and cornerback DeAngelo Hall.[22] Under the rules of restructuring, "if a team inserts a player voidable clause—allowing the player to end his contract early—then a signing bonus following the voidable clause will not prorate through the remainder of the contract."[23] Albert Haynesworth had a $21 million bonus and DeAngelo Hall had a $15 million bonus restructured under that rule, which allowed the Redskins to contain $36 million in the uncapped year, instead of prorating it out over future years.[24]

The Penalties

On March 12, the NFL announced that it had docked the Washington Redskins $36 million and the Dallas Cowboys $10 million in salary cap space for their actions during the uncapped season.[25] The NFL Management Council and the NFLPA agreed on March 11 that $1.643 million would be added to the salary cap of 28 other teams.[26] The New Orleans Saints and the Oakland Raiders were excluded because of similar behavior.[27]

On March 12, the NFL stated that the moves by the Redskins and Cowboys "created an unacceptable risk to future competitive balance, particularly in light of the relatively modest salary cap growth projected for the new agreement's early years."[28] The NFL elaborated on that point on March 26 by releasing this statement:

> The reallocation aspect of the agreement is intended to address competitive issues from contract practices by those clubs in the 2010 League Year intended to avoid certain salary cap charges in 2011 and later years. Under the agreement with the NFLPA, the two clubs will be charged a total of $46 million in cap room in the 2012 and 2013 seasons ($18 million per year for Washington; $5 million per year for Dallas). That room, instead, will be reallocated to 28 other clubs in the 2012 and 2013 season as determined by the Club. (The New Orleans Saints and Oakland Raiders, which engaged in similar contract practices at a far different level, will not receive any additional cap room. Those two clubs have not challenged the agreement with the NFLPA.) The agreement will promote competitive balance without reducing the salary cap or player spending on a league-wide basis.[29]

NFL and NFLPA Reasoning

Competitive Balance

The NFL's main argument for the salary cap penalties is competitive balance.[30] The NFL achieves competitive balance through revenue sharing and the salary cap. In the NFL, approximately 60% of revenue is distributed equally among all teams.[31] This 60% consists of revenue from road game ticket receipts, NFL Properties, and television and radio deals.[32] Revenue sharing ensures that small market teams can afford players while also earning profits. The salary cap ensures that all teams are on an equal playing field when it comes to player salary.

The moves made by the Redskins and Cowboys represent a threat to the NFL's competitive balance practices. The NFL will argue that by giving Miles Austin $17 million in base salary, the Cowboys have reduced their potential salary cap for future years.[33] In 2010, that salary would result in a $17 million cap hit.[34] Over the next six years, Austin's average salary cap hit is $6.6975 million.[35] That difference coincides with the salary cap penalty of $10 million. The NFL believes that by front loading Austin's contract during the uncapped year, the Cowboys will pay millions of dollars less against the salary cap, once the salary cap returned.[36] The NFL Management Council believes that this "created an unacceptable risk to future competitive balance, particularly in light of the relatively modest salary cap growth projected for the new agreement's early years."[37]

One way in which this creates a risk to future competitive balance is through the use of the franchise tag. The franchise tag allows each team "to designate one of its players who would otherwise be an Unrestricted Free Agent as a Franchise Player each season during the term of this Agreement."[38] The salary for a franchise player is determined as "the average of the five (5) largest Prior Year Salaries for players at the position or 120% of his Prior Year Salary, whichever is greater."[39] Austin's salary in 2010 contributed to the value of a franchised wide receiver because he was one of the five highest paid wide receivers during 2010.[40] The San Diego Chargers were greatly affected by this increase in the franchise tag, because in order to franchise Vincent Jackson in 2011, they had to pay a one-year guaranteed salary of $11.4 million.[41] They franchised Vincent Jackson, could not reach a long-term agreement with him, and then had to choose between paying him $13.7 million in 2012 or letting him leave via free agency.[42]

The Redskins' decision to restructure the contract of Albert Haynesworth and DeAngelo Hall affected competitive balance in a different way. Instead of signing an existing player to a long-term contract, the Redskins restructured contracts of players already on their team.[43] Restructuring the Haynesworth and Hall deals allowed the Redskins to pay a large sum up front, by taking signing bonus money that is chargeable against the salary cap, and putting it in the uncapped year.[44] In Haynesworth's case, the Redskins could release him and avoid the cap hit that his signing bonus would have had on future years.[45]

The NFL Management Council is the "sole and exclusive bargaining representative of present and future employer member Clubs of the National Football League."[46] A way in which the NFL Management Council could impose penalties is under the NFL Constitution and Bylaws. If competitive aspects of the game are violated, the Commissioner can, after notice and hearing:

> Award selection choices and / or deprive the offending club of a selection choice or choices and / or cancel any contract or agreement of such person with the League or with any member thereof and / or fine the offending club in an amount not in excess of five hundred thousand dollars ($500,000), or in the case of an unrescinded unauthorized sale, transfer, or assignment of a membership or an interest therein to any person other than a member of the transferor's immediate family in violation of Section 3.5 hereof, the greater of (i) five hundred thousand dollars ($500,000), and (ii) an amount equal to 15% of the transaction value.[47]

The Commissioner also has the power to "make any other recommendation he deems appropriate" if that clause is violated.[48]

Apart from the Commissioner, the NFL Management Council Executive Committee may "impose such other additional discipline or punishment as it may decide"[49] The chair of the NFL Management Council, John Mara, stated that the Redskins and Cowboys were "lucky they didn't lose draft picks" because "what they did was in violation of the spirit of the salary cap."[50] John Mara is the co-owner of the New York Giants, the division rival of the Redskins and the Cowboys, so that could be viewed as motivation for penalizing both teams.[51]

Leverage

The NFL Management Council felt that the actions by the Redskins and the Cowboys deserved punishment. The NFLPA felt that it could leverage the owner's agreement to benefit the players, while also punishing the Redskins and the Cowboys.[52] Based on the revenue sharing formula for 2011, the salary cap would have fallen between \$113 and \$117 million.[53] In 2011, the salary cap was \$120.375 million, so a decrease in the salary cap number would be seen as a failure by the NFLPA to increase the wages of the players.[54] The NFLPA agreed to borrow against future caps to increase the salary cap for the 2012 season.[55] By borrowing from future caps, the 2012 salary cap was set at \$120.6 million, higher than the previous year's.[56] The NFLPA believed that borrowing the money was justified because new television contracts go into effect in 2014 and they are substantially greater than the previous ones.[57] The NFLPA stipulated that the \$46 million taken away from the Redskins and Cowboys would be divided among the 28 teams that did not engage in these practices, to ensure that player benefits would not decrease.[58] The NFL Management Council agreed to these penalties because they did not harm teams other than the Redskins and the Cowboys. The NFLPA borrowed money from future caps, so NFL teams would have to pay more now, but they would save in future years.[59]

NFLPA Executive Director DeMaurice Smith was up for re-election in 2012.[60] If the cap had been set between \$113 and \$117 million, Smith might not have been re-elected.[61] Instead, Smith could tell the players that the salary cap increased from 2011, even though they borrowed millions from future caps.[62] Smith ended up running unopposed a few weeks after the cap penalties were imposed.[63]

As part of the deal to end the 2011 lockout, a section of the agreement was a settlement on all antitrust issues related to *Brady v. NFL*.[64] The NFL chose not discipline the Redskins and the Cowboys in 2010 under Article VIII of the NFL Constitution and Bylaws because that would involve admitting to an implicit agreement to keep prices down in the uncapped year. The NFLPA would have evidence of collusion in the year prior to the expiration of the CBA, giving it additional ammunition in a potential lawsuit against the NFL. By coming to an agreement with the NFLPA, the NFL protected itself from potential collusion charges, because the NFLPA agreed to waive all antitrust issues in the 2011 CBA.[65]

The Redskins' and Cowboys' Arguments

The Redskins and the Cowboys will also have valid arguments in response to the penalties. After the penalties were issued the Redskins stated, "Every contract entered into by the club during the applicable periods complied with the 2010 and 2011 collective bargaining agreements and, in fact, were approved by the NFL commissioner's office."[66] Similarly, the Dallas Cowboys issued a statement, saying that they "were in compliance with all league salary cap rules during the uncapped year."[67] The Redskins and Cowboys have filed a grievance against the NFL and the NFLPA.[68] Under the CBA:

> Any dispute (hereinafter referred to as a "grievance") arising after the execution of this Agreement and involving the interpretation of, application of, or compliance with, any provision…of the NFL Constitution and Bylaws…will be resolved exclusively in accordance with the procedure set forth in this Article.[69]

The Special Master who heard the case was Professor Stephen Burbank of the University of Pennsylvania.

You Can't Break a Rule That Isn't There

One of the main points argued by the Redskins and the Cowboys is that because there was no CBA, the NFL Management Council could not promulgate rules relating to spending on player contracts.[70] The rules governing what counts towards the salary cap are collectively bargained between the owners and the players' union.[71] The rules that govern salary spending in the uncapped year were set in the 2006 CBA, and that agreement was silent on how teams may structure contracts during the uncapped year. John Mara admitted that the penalties had "to do with teams attempting to gain a competitive advantage through a loophole in the system."[72] By admitting that the Redskins and the Cowboys took advantage of a loophole, Mara is admitting that the teams took advantage of a situation for which there was no rule.

The Commissioner approves all player contracts.[73] Under Section 8.14(A) of the NFL Constitution and Bylaws:

> The Commissioner shall have the power, without a hearing, to disapprove contracts between a player and a club, if such contracts have been executed in violation of or contrary to the Constitution and Bylaws of the League, or, if either or both of the parties to such contracts have been or are guilty of an act or conduct which is or may be detrimental to the League or to the sport of professional football. Any such disapproval of a contract between a player and a club shall be exercised by the Commissioner upon written notice

> to the contracting parties within ten (10) days after such contracts are filed with the Commissioner. The Commissioner shall also have the power to disapprove any contract between any club and a player or any other person, at any time pursuant to and in accordance with the provisions of Section 8.13(A) of the Constitution and Bylaws.[74]

The Redskins and Cowboys should argue that by not expressly disapproving of the contracts when they were signed, the Commissioner and the NFL Management Council effectively approved them. The clause in the NFL Constitution and Bylaws that gives the Commissioner the power to penalize teams if they violate competitive balance does not apply when there is no salary cap, because the rule that all contracts are approved by the Commissioner applies instead. Under Section 8.13(A) of the Constitution and Bylaws, the NFL is issuing this punishment because of a "violation affecting the competitive aspects of the game,"[75] and the Commissioner can disapprove any contract under Section 8.14(A) "at any time."[76]

The issue then becomes whether Section 8.14(A) applies to a salary cap situation, in a year in which there is no salary cap. Dallas owner Jerry Jones believes that by approving the contracts in 2010, the NFL cannot impose a penalty based on contracts that were approved.[77] At the Owners' Meetings, Jones said, "all of our contracts were approved by the league, and you can't approve a contract that is in violation of league rules. You can't even get it on the books if it isn't in sync with league rules."[78] He even stated that "there were a lot of things rather than Cowboys cap room that I would have rather leveraged the players union to give the NFL."[79] The Redskins and the Cowboys can argue that there was no rule against structuring deals in 2010, and the Commissioner approved the deals without giving them notice. Therefore, the Commissioner does not have the ability to impose penalties based on the way contracts were structured in 2010.

Unfair Application of Competitive Advantage

The NFL's competitive advantage argument is unfair as applied to the Cowboys. An analysis of the similarities among Miles Austin's contract, Chicago Bears defensive lineman Julius Peppers' contract, and Detroit Lions defensive lineman Kyle Vanden Bosch's contract provides evidence of "teams attempting to gain a competitive advantage through a loophole in the system."[80]

Miles Austin's Contract[81]

	Base Salary	Signing Bonus	Miscellaneous Bonus	Cap Hit
2010	$17,078,000	-		$17,078,000
2011	$685,000	$1,570,000	-	$2,255,000
2012	$1,150,000	$1,570,000	-	$2,720,000
2013	$6,732,000	$1,570,000	-	$8,302,000
2014	$5,500,000	$1,570,000	-	$7,070,000
2015	$6,888,000	$1,570,000	-	$8,458,000
2016	$11,380,000	-	-	$11,380,000
Average	$8,235,500	$1,121,428	-	$8,166,857
Difference Between 2010 and Average	$8,842,500	$1,121,428	-	$8,911,143

Julius Peppers' Contract[82]

	Base Salary	Signing Bonus	Miscellaneous Bonus	Cap Hit
2010	$20,000,000	$1,083,333	$13,850,000	$34,933,333
2011	$900,000	$1,083,333	$11,850,000	$13,833,333
2012	$8,900,000	$1,083,333	$1,350,000	$11,333,333
2013	$12,900,000	$1,083,333	$1,350,000	$15,333,333
2014	$13,900,000	$1,083,333	$1,350,000	$16,333,333
2015	$16,500,000	$1,083,333	$1,250,000	$18,833,333
Average	$12,183,333	$1,083,333	$5,166,666	$18,433,333
Difference Between 2010 and Average	$7,816,667	0	$8,683,334	$16,500,000

Kyle Vanden Bosch's Contract[83]

	Base Salary	Signing Bonus	Miscellaneous Bonus	Cap Hit
2010	$10,000,000	-	0	$10,000,000
2011	$4,500,000	-	$3,690,000	$8,190,000
2012	$5,000,000	-	0	$5,000,000
2013	$5,000,000	-	0	$5,000,000
Average	$6,125,000	-	0	$7,047,500
Difference Between 2010 and Average	$3,875,000	-	$922,500	$2,952,500

Under the same reasoning the NFL used to punish the Cowboys, the Bears used disproportionate cap spending of $16.5 million in 2010 and the Lions used disproportionate cap spending of $4.7975 million in 2010. Neither the Bears nor the Lions were penalized. Instead, they both received an additional $1.6 million in salary cap space in 2012,[84] even though their disproportionate spending had the same effect on competition. If the NFL punishes the Cowboys for disproportionate cap spending for signing Miles Austin to an extension, then fairness requires it to punish the Bears and Lions for disproportionate cap spending as well.

The Redskins and Cowboys can also argue that the reason for the unfair application was due to difference in overall spending during the 2010 season.[85] In 2010, the Redskins spent $178.2 million and the Cowboys spent $166.5 million on salaries.[86] In comparison, the Bears spent $131.9 million and the Lions spent $122.9 million.[87] The average team salary was $122.54 million, but the Cowboys and Redskins outspent the average by over $40 million.[88] If the NFL was concerned about teams gaining a competitive advantage in future seasons, it is odd that it chose only to penalize the two highest paying teams during the uncapped year and not teams that also gained a competitive advantage, but spent millions less on salary in 2010.

Another competitive advantage argument the Redskins and the Cowboys can make is the advantage gained by teams that severely underspent in 2010.[89] The NFL CBA defines the salary floor as "84% of the Salary Cap" in 2006 and that percentage "shall increase 1.2%" for each subsequent year.[90] The salary floor shall not "be greater than 90%" and "there shall be no Minimum Team Salary in the Final League Year."[91] In 2009, the salary floor was $107.748 million.[92] In 2010, the salary floor would have been 1.2% greater, setting it at $109,040,976.

In 2010, the San Diego Chargers, Buffalo Bills, Denver Broncos, Cincinnati Bengals, Arizona Cardinals, Jacksonville Jaguars, Kansas City Chiefs, and Tampa Bay Buccaneers all spent under the projected salary floor.[93] The Kansas City Chiefs was the only team in that group that made the playoffs and the combined record of the group was 54-74.[94] In contrast, the 24 teams that spent above the salary floor had a combined record of 202-182, and 11 of them made the playoffs, not including the Redskins or the Cowboys.[95] By severely underspending, those eight teams had a disproportionate amount of success compared to the teams that spent above the salary floor. Only 12.5% of the teams that underspent made the playoffs, compared to 45.8% of the teams that spent at least the minimum. Those teams that did not reach the salary floor clearly affected "the competitive aspects of the game" in 2010.[96]

The NFL fails to account for the effect underspending in 2010 had on future competition. Unlike the Redskins and the Cowboys, the eight teams that underspent gained a competitive advantage in free agency in future years, because once the salary floor returned, they would need to spend millions on player extensions and free agents in order to reach it. As was argued earlier by the NFL, the effect of the Redskins and the Cowboys deals increased franchise tag amounts.[97] These eight teams had more money to spend on free agents than the other 24, so they would affect franchise tags by frontloading contracts to reach the salary floor. In 2012, the Buccaneers entered free agency with a league high $44.6 million in salary cap space.[98] In order to reach the salary floor, the Buccaneers signed Vincent Jackson, Carl Nicks, and Eric Wright for a combined $140 million.[99] Similarly to the Buccaneers, the Denver Broncos, Cincinnati Bengals, and Jacksonville Jaguars had the next highest amount of salary cap space.[100] The salary cap space allowed Denver to pay Peyton Manning $18 million in the first year of his contract.[101] In the same way Miles Austin's contract affected the franchise tag for wide receivers, Peyton Manning's contract will severely impact the franchise tag cost to the Saints to franchise quarterback Drew Brees.

The effect that salary cap space has on free agency goes beyond franchise tags. The average team salary cap space in 2012 was $12.5 million.[102] A team with salary cap space can structure a contract that is severely frontloaded, meaning that it could pay more upfront to a player than other teams. By doing this, the team would benefit by signing good players, helping it reach the minimum and thereby allow it to easily outbid other teams. The player would benefit because he could receive more money than his value and also receive more money upfront. An example of this practice was done by the Tampa Bay Buccaneers in 2012. Vincent Jackson received a 5-year deal with an average salary of $11 million, but he is receiving $13 million in the first two years of his contract.[103] Carl Nicks received a 5-year deal with an average salary of $9.5 million, but he is receiving $12.5 million in the first two years.[104] This shows that by severely underspending in 2010, the Buccaneers were able to structure free agent contracts in 2012, in a way in which other teams could not under the salary cap. The Redskins and the Cowboys should argue that by underspending in 2010, those teams gained a competitive advantage in future years.

Antitrust Ramifications

The agreement among the NFL owners appears to trigger antitrust questions. Under § 1 of the Sherman Antitrust Act, "every 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, is declared to be illegal."[105] Under this section, price fixing and wage fixing are illegal in labor markets.[106] The issue is whether the NFL owner's agreement is a form of price fixing or wage fixing that would violate the CBA or the Sherman Antitrust Act.

Under the 2006 CBA, anti-collusion is defined narrowly. An NFL team is prohibited from entering into any agreement with another NFL team "to restrict or limit individual Club decision-making" in relation to (a) negotiating with any player; (b) submitting an offer sheet; (c) offering a contract to a free agent or undrafted rookie; (d) exercising a right of first refusal; or (e) concerning the terms and conditions of employment offered in a player contract.[107] Section 1(e) may apply to this situation because an agreement among NFL teams to structure contracts a certain way would concern "the terms and conditions of employment offered in a player contract."[108] The terms of a player's contract would involve the form of the salary in the contract, i.e., base salary and signing bonus.

The anti-collusion clause would not apply to this situation because of the 2011 CBA. Under Article 3, the NFLPA "assigns, releases, and covenants not to sue… in, any suit or proceeding…against the NFL or any NFL Club…with respect to antitrust or…collusion with respect to any League Year prior to 2011.[109] When the NFLPA signed the 2011 CBA, it agreed to forfeit its right to sue the NFL with respect to collusion during the 2010 season.[110] Had the NFLPA sued the NFL under the anti-collusion clause, that would be a violation of the 2011 CBA.[111]

Conclusion

The NFL has taken advantage of its own loophole in the NFL Constitution and Bylaws. By imposing penalties on teams for structuring contracts a certain way after agreeing that the contracts did not violate any rules allowed the NFL to work around the NFL Constitution and Bylaws. The NFL is retroactively imposing penalties because it did not want to give the NFLPA evidence of collusion during the 2010 season. Had the NFL imposed penalties in 2010, the NFLPA would have been able to argue that the penalties were due to a tacit agreement to keep salaries low. Instead, the NFL Management Committee knew that it had to reach an agreement with the NFLPA in order to impose these penalties. Once that was reached, the penalties were imposed. Coincidentally, the two teams penalized are in the same division as NFL Management Committee Executive Chairman John Mara.

In this situation, it appears that the NFL is punishing two teams for their actions during the uncapped year because they outspent every other team. Fairness requires either the penalties to be overturned or for penalties to be imposed on every team that structured contracts the same way or underspent in 2010. The NFL's competitive advantage argument is seriously flawed when other teams structured contracts the same way as did the Redskins and the Cowboys. Further, teams that underspent not only altered the competitive landscape in 2010 by underperforming, they also altered the competitive landscape in 2012 by having more salary cap space than nearly every team.

Although common sense would have dictated that Special Master Burbank rule in favor of the two teams, on May 22, he instead ruled in favor of the NFL and dismissed the case.[112]

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Thomas Grove is a graduate of Pace Law School and the University of Maryland. His legal interests include Intellectual Property and Sports Law, especially salary cap analyses in the NFL, NHL, and NBA. While in law school, he developed an interest in sports analytics and is continually trying to find ways to use numbers to explain issues in sports.

Mr. Grove can be found at various Intellectual Property and Sports Law Symposia around the tri-state area, talking about everything from current issues in the law to the University of Maryland lacrosse team. He can be reached at ThomasMGrove@gmail.com or @ThomasMGrove.

Bringing Broadcast Television to the Internet: Aereo's Legal Challenges*

By Danielle Clout

Introduction

Barry Diller claims to be ready for "a great fight."[1] Nearly 30 years ago, Diller made his mark as the creator of the Fox television network.[2] Today, he is backing the new service, Aereo, that is attempting to "help[] itself"[3] to all of Fox's and the other major networks' content.[4]

On March 14, 2012, Aereo launched and began distributing over 20 broadcast channels[5] to subscribers over the Internet.[6] Backed by $20.5 million in financing, the company anticipates vigorous legal challenges to its business model.[7] Not surprisingly, on March 1, 2012, two lawsuits were filed against Aereo in the United States District Court for the Southern District of New York.[8] The lawsuits claim copyright infringement and unfair competition, and seek injunctive relief and damages.[9]

Aereo "believes it has a clever work around [copyright law]—antennas—lots of them."[10] Since the service's official announcement on March 13, 2012, Aereo executives have been boasting the "clever antenna design" that is designed to comply with copyright law.[11] It is clear from the press surrounding Aereo, the statements of Aereo executives, and Aereo's Answer, that Aereo has attempted to design a streaming service that accords with the *Cartoon Network LP v. CSC Holdings, Inc.*[12] decision.[13] As one scholar notes, "Aereo is engaged in copyright arbitrage: it [is] trying to stitch together a chain of explicitly legal acts until it reaches a result that would be infringing if done directly."[14]

In *Cartoon Network*, the court held that Cablevision's use of a remote storage digital video recorder (RS-DVR) system did not directly violate the copyright owners' exclusive public performance right.[15] The court reasoned that "[b]ecause each RS-DVR playback transmission is made to a single subscriber using a single unique copy produced by that subscriber,…such transmissions are not performances 'to the public'" in violation of the exclusive public performance right.[16] It seems this decision has led Aereo executives to believe that its use of "thousands of tiny antennas…so that each subscriber has an assigned antenna"[17] amounts to legality. It will likely argue that this personal antenna will be the "unique copy" that the *Cartoon Network* court deemed not be a performance "to the public."[18] As Aereo sees it, it "merely provides technology…that consumers may use to do what they are [already] legally entitled to do:…access free…over-the-air television broadcasts using an antenna," and "record and play back…unique recordings utilizing a remotely-located digital video recorder…to personal devices."[19]

This article argues that Aereo's reliance on *Cartoon Network* is ill-advised and Aereo is likely to be found liable for direct copyright infringement.[20] Part I sets forth the relevant law applicable to the Aereo service. Part IA discusses copyright infringement of the exclusive right of public performance, and summarizes the Second Circuit's *Cartoon Network* opinion. Part IB then explains how those copyright principles apply to the specific context of secondary transmissions of broadcast network signals. After the relevant law is discussed in Part I, Part II proceeds to discuss the Aereo service at issue. Part IIA explains the technology and business model of the Aereo service—to the extent that any information is available regarding the details of the service—Part IIB sets forth the parties' arguments presented in the litigations thus far. Lastly, Part III concludes that the content owners ultimately have the stronger argument, and that Aereo is likely to be found liable for direct copyright infringement and be subject to a permanent injunction.

I. Background

Article I, § 8 of the United States Constitution provides Congress with the power "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."[21] It is with this power that Congress enacted the Copyright Act, for the purpose of "motivat[ing] the creative activity of authors and inventors by the provision of a special reward, and…allow[ing] the public access to the products of [the authors' and inventors'] genius after the limited period of exclusive control has expired."[22] This section discusses the Copyright Act, exclusive rights granted to copyright holders through the Act, and the standards of liability for direct copyright infringement. Section A explores the exclusive right of public performance, as well as *Cartoon Network LP v. CSC Holdings, Inc.*[23]—a case relied on by Aereo for its position. Section B then goes on to examine the history and nature of infringement with respect to secondary transmissions.

A. The Exclusive Public Performance Right

The Copyright Act, among other things, grants copyright owners the exclusive right "to distribute copies… of the[ir] copyrighted work to the public."[24] Any person

***See addendum on p. 65 regarding this case.**

"who violates…[this] exclusive right[]…is an infringer of the copyright."[25] Upon a finding of copyright infringement, a copyright owner may seek remedies, including injunctions, damages and attorneys' fees.[26] In the case of willful infringement "for purposes of commercial advantage or private financial gain," a person can be subject to criminal penalties.[27]

In *Cartoon Network*, the United States Court of Appeals for the Second Circuit expounded on the right of public performance, specifically with respect to when a performance is "to the public"[28] under the Copyright Act. At issue was the RS-DVR technology.[29] Similar to its predecessor the VCR, a DVR allowed television viewers to record programming to view at a later point in time.[30] Up until the RS-DVR, DVR systems were typically in the form of a stand-alone device that users connected to their televisions within their homes.[31] In March 2006, however, Cablevision announced the RS-DVR, which allowed its customers to record programming to a hard drive located in a remote location.[32] With this technology, Cablevision customers no longer needed a stand-alone device in their homes, but can view programming that had been recorded and stored in a Cablevision facility.[33]

An understanding of the RS-DVR technology is necessary to discuss its copyright implications. In general, Cablevision delivers a "single stream of data" to its subscribers.[34] With the RS-DVR technology, this single stream is fragmented into two streams: one stream that is delivered directly to subscribers in the normal course of business and one stream that is sent to a series of buffers.[35] If a subscriber communicates to the system that he or she wants to record a certain program, the stream is then transferred into a secondary buffer, where it is recorded onto a hard disk designated for that specific subscriber.[36] Despite this complex process the RS-DVR carries out, "[t]o the customer,…the processes of recording and playback on the RS-DVR are similar to that of a standard set-top DVR."[37]

The *Cartoon Network* court held that Cablevision did not "publicly perform" the copyrighted works.[38] In doing so, the court looked to the plain language of the Copyright Act. A person or entity "publicly" performs a work when it "transmit[s] or otherwise communicate[s] a performance…to the public…, whether the members of the public *capable of receiving* the performance…receive it in the same place or in separate places and at the same time or at different times."[39] Accordingly, the court focused on "who precisely is 'capable of receiving' a particular transmission of a performance."[40] The court reasoned that "because the RS-DVR system…only makes transmissions to one subscriber using a copy made by that subscriber,… the universe of people capable of receiving an RS-DVR transmission is a single subscriber."[41] It found, therefore, that the transmission was not "to the public" as required by the Act.

Although the court found no violation of the exclusive public performance right under the facts of *Cartoon Network*, it cautioned that associating one unique copy per subscriber will not always absolve a content delivery service of copyright liability:

> This holding, we must emphasize, does not generally permit content delivery networks to avoid all copyright liability by making copies of each item of content and associating one unique copy with each subscriber to the network, or by giving their subscribers the capacity to make their own individual copies.[42]

Congress has stated that "[e]ach and every method by which…a performance…[is] picked up and conveyed is a 'transmission,' and if the transmission reaches the public in [any] form, the case comes within the scope of" the exclusive public performance right.[43] It is this Congressional intent that compelled the Second Circuit to hold that "a public performance…includes 'each step in the process by which a protected work wends its way to its audience.'"[44]

B. Copyright Infringement for Secondary Transmissions

In Section 111 of the Copyright Act, Congress addresses the unique issues that arise in the context of cable system secondary transmissions.[45] Section 111, accordingly, accomplishes three things: it establishes that a secondary transmission is, in fact, a "performance," it limits the exclusive right of public performance by exempting certain secondary transmissions from infringement liability, and it sets forth a compulsory licensing scheme.[46]

Congress' intent to qualify secondary transmissions as "performances" was clear. Section 111 was enacted in response to a line of Supreme Court decisions holding that a cable system's retransmission of a broadcast network's primary transmission was not a "performance" in violation of the copyright holders' exclusive rights.[47] These decisions compelled Congress to determine the scope of cable system's liability with respect to secondary transmissions.[48] The inclusion of Section 111 by Congress established its intent to overturn the Supreme Court's precedent and to treat a cable systems' secondary transmission as a "performance separate from and in addition to the performance of the primary transmitter."[49] The House Report further confirmed this intent: "[A] singer is performing when he or she sings a song; a broadcasting network is performing when it transmits his or her performance…; [and] a cable television system is performing when it retransmits the broadcast to its subscribers…."[50]

Since secondary transmissions constitute "performances" under the Copyright Act, any secondary transmission "to the public" constitutes a violation of the copyright holder's exclusive public performance right. Section

111, however, excludes certain secondary transmissions from the scope of infringement. Among other exceptions, Section 111 exempts from liability any person or entity who simply provides the technology or equipment necessary to retransmit the broadcast signals:

> The secondary transmission of a performance or display of a work embodied in a primary transmission is *not* an infringement of copyright if…(3) the secondary transmission is made by any carrier who has no direct or indirect control over the content or selection of the primary transmission or over the particular recipients of the secondary transmission, and whose activities with respect to the secondary transmission consist *solely* of providing wires, cables, or other communications channels for the use of others….[51]

Another exception relieves cable systems from infringement liability if they comply with certain compulsory license provisions.[52] After assessing the "complex and economically important problem of 'secondary transmissions,'" Congress ultimately determined that "cable systems are commercial enterprises whose basic retransmission operations are based on the carriage of copyrighted program material and that copyright royalties should be paid by cable operators to the creators of such programs."[53] The compulsory license attempts to balance the interests of all parties involved; it compensates the copyright holders while recognizing that "it would be impractical and unduly burdensome to require every cable system to negotiate with every copyright owner whose work was retransmitted by a cable system."[54] The compulsory license does not, however, exempt a cable system from infringement liability for "the willful or repeated secondary transmission to the public…of a primary transmission…where the carriage of the signals comprising the secondary transmission is *not permissible under the rules, regulations, or authorizations of the Federal Communications Commission*."[55]

These compulsory license provisions are largely affected by the Cable Television Consumer Protection and Competition Act of 1992,[56] which modified the Communications Act to include retransmission consent provisions.[57] Congress noted that broadcast television programming "remains the most popular programming on cable systems, and a substantial portion of the benefits for which consumers pay cable systems is derived from [the] carriage of" such programming.[58] Accordingly, the Communications Act now allows broadcast television stations to elect whether to be carried under the retransmission consent rules, or under the "must carry" rules.[59] A must carry station is guaranteed carriage on the cable systems within its market, but is prohibited from being compensated for such carriage.[60] When a broadcast station elects to proceed under retransmission consent, however, "[n]o cable system [can] retransmit [its] signal…except…with the express authority of the originating station."[61] This means that if the parties do not reach an agreement, the cable system is no longer required to, and in fact is prohibited from, carrying that broadcast station.[62] At this point in time, all of the broadcast stations affiliated with the major broadcast networks have elected to proceed under retransmission consent.[63]

II. The Aereo Service

Aereo claims that its business "is entirely lawful."[64] This legality, Aereo asserts, arises from the fact that it attributes one antenna to each subscriber.[65] While some find the use of thousands of tiny antennas to be "intensely silly,"[66] Aereo argues that this technological structure precludes the applicability of the copyright laws to its service. Section A below discusses the Aereo service technology and Aereo's business model. Section B explains the controversy that is quickly developing in the courts, and sets forth the parties' arguments for and against the Aereo service.

A. The Technology and Business Model of Aereo

Aereo, which launched on March 14, 2012, "has arrayed thousands of tiny antennas—each the size of a thumbprint."[67] For now, these antennas are housed in boxes around New York City[68] and are available only to New York City residents,[69] but Aereo expects to expand into at least 75 cities within one year.[70] With the Aereo service, Aereo subscribers can access broadcast television programming on any of their Internet-connected devices for only $12 per month.[71] A subscriber also has the ability to record live shows, similar to a DVR, and access recorded programming from the Cloud.[72]

This low monthly subscription fee is due to the fact that Aereo expressly disavows its obligation to pay any license fees to the broadcast networks.[73] Barry Diller refers to the Aereo service as "a 'potentially transformative technology' [that can] free consumers from the shackles of cable and satellite [television]."[74]

Aereo has not been very forthcoming with how the technology works, but it seems to be marketing Aereo as an equipment rental—a remote "bunny ears" stored for one's individual use in a remote location. In a press conference surrounding the launch of the Aereo service, Chet Kanojia, Aereo's CEO, explained that each tiny individual antenna is built into a larger three-dimensional array.[75] Inside the array, "a lot of sophisticated processing" happens "to make the signal crystal clear [and] available to [subscribers at all times]."[76] It is out of this array that video is "pumped" over the Internet.[77] ABC's complaint suggests that Aereo "digitally transcodes, converts and compresses the programs so they can be retransmitted through the Internet to its subscribers."[78] Aereo, however, denies all allegations set forth in that paragraph of ABC's complaint,[79] so the technology behind the service remains relatively mysterious. Despite these denials, Barry Diller has stated that "[b]ehind [the] simplicity [of the remote antenna] is a lot of technology."[80]

B. The Conflict in the Courts

Aereo claims that "settled law…establishes conclusively that Aereo's business is entirely lawful."[81] This contention, it asserts, "rests squarely on…three bedrock legal principles:"[82]

> 1. …it [is] well-settled…that the airwaves are owned by the public and licensed to broadcasters for the benefit of the public interest, convenience, and necessity.
> 2. Second, consumers have an equally well-established right to record for their own personal use the programming content to which they have legal access.
> 3. Third, companies that merely supply remote technological means that customers can use to make personal recordings and play them back are not liable for copyright infringement as to the recorded programming content.[83]

Aereo argues that because it offers each subscriber "a specific individual antenna that is tuned and used only by that consumer for the duration of that access," the Aereo service "simply provides to its [subscribers] the convenience of locating at a remote facility the type of equipment that they could otherwise have and use at home."[84]

These arguments, however, are met with great opposition from the content providers. In *WNET v. Aereo, Inc.*, the plaintiffs argue that each subscriber being assigned his or her own antenna is a ploy that will not absolve Aereo of its copyright liability:

> It simply does not matter whether Aereo uses one big antenna to receive Plaintiffs' broadcasts and retransmit them to subscribers, or "tons" of "tiny" antennas, as Aereo claims it does. No amount of technological gimmickry by Aereo—or claims that it is simply providing a set of sophisticated "rabbit ears"—changes the fundamental principle of copyright law that those who wish to retransmit Plaintiffs' broadcasts may do so only with Plaintiffs' authority. Simply put, Aereo is an unauthorized Internet delivery service that is receiving, converting and retransmitting broadcast signals to its subscribers for a fee.[85]

The plaintiffs in *ABC, Inc. v. Aereo, Inc.* agree: "Aereo is wrong and its miniature antenna scheme is an artifice."[86]

Collectively, the plaintiffs challenge the "tiny antenna" array as a scheme to avoid copyright liability and claim that the Aereo service infringes upon the content providers' exclusive rights[87]—most notably the exclusive right of public performance. The complaints express concern that Aereo "circumvent[s] the carefully balanced distribution system mandated by Congress" that requires distributors, such as cable systems, to pay to retransmit the same programming; the same programming that "Aereo just helps itself [to]—without permission and on a round-the-clock, daily basis."[88]

III. Aereo's Liability for Direct Copyright Infringement

The Second Circuit is likely to find Aereo liable for direct copyright infringement.[89] This section argues that Aereo's service stream constitutes a "performance" under the Copyright Act and that such performance is "to the public" in violation of the exclusive rights granted to the copyright holder in Section 106(4) of the Copyright Act. This section further discusses that the Aereo service is not a protected secondary transmission under Section 111 of the Copyright Act, and therefore cannot be relieved from liability for its illegal public performances by complying with the compulsory license requirements.

Aereo's remote "bunny ears" argument is transparent and courts are likely to classify Aereo's Internet streams as "secondary transmissions." None of the parties dispute that it is lawful for individuals to purchase antenna equipment to set up within their home and receive free over-the-air broadcasting signals. The difference between these lawful activities and the Aereo service, however, is that the former involves a one-time equipment purchase, the absence of privity between the parties, and certainly an absence of an ongoing commercial relationship between the buyer and seller. Notwithstanding Aereo's arguments to the contrary, the Aereo service is more comparable to a cable system:

> Cable television systems are commercial subscription services that pick up broadcasts of programs originated by others and retransmit them to paying subscribers. A typical system consists of a *central antenna* which receives and amplifies television signals and a network of cables through which the signals are transmitted to the receiving sets of individual subscribers.[90]

Although Aereo has not disclosed in detail how the broadcast streams travel to the subscriber, the fact that the antennas are built into three-dimensional arrays, which proceed to transmit the signal over the Internet, strongly suggests that the three dimensional arrays act as "central antenna[s]"[91] which "sophisticated[ly] process[]"[92] the signal to be "transmitted to the [Internet-connected devices] of individual subscribers."[93] The legislative history clearly instructs a court to treat such secondary transmissions as "performances" under the Copyright Act.[94]

If, as argued here, a court finds that Aereo is delivering secondary transmission "performances," such performances can be deemed "to the public" in violation of the copyright owners' exclusive public performance right. If Aereo believes the contrary, it may be because it incorrectly relies on *Cartoon Network LP v. CSC Holdings, Inc.*[95] Unlike the Aereo service, *Cartoon Network* involved an original data stream that Cablevision was *authorized* to transmit to the public. This authorized stream was then broken off into a second stream and sent to a series of buffers, where ultimately, a unique copy was made for each user that requested it. The original stream ultimately made its way "to the public" through the second stream, but was not discussed by the court because Cablevision properly obtained the consent of the networks to distribute it. The court instead focused its attention on the "playback transmission," which was a separate and distinct transmission from Cablevision's original stream.

The Aereo service is distinguishable from Cablevision's RS-DVR and, consequently, *Cartoon Network* is not controlling authority. Aereo admits that it has failed to receive authorization from the broadcast networks, and expressly rejects the contention that it is obligated to do so.[96] For a court to assess the legality of the Aereo service, it need not address the "playback transmission" at issue in *Cartoon Network*. The court, instead, need only address the unauthorized *original* transmission to the subscriber. As a court is instructed to look at whether a "transmission reaches the public in [any] form,"[97] and that "a public performance…includes 'each step in the process by which a protected work wends its way to its audience,'"[98] a court will likely hold that this original transmission amounts to a secondary transmission "to the public." The Second Circuit has already cautioned that "delivery networks [cannot] avoid…copyright liability by…associating one unique copy with each subscriber."[99] This statement warns services like Aereo that the courts will not fall for an illusory antenna design created to disguise an illegal public performance as something lawful.

Section 111 of the Copyright Act does not relieve Aereo of its liability in this instance.[100] Aereo does not "solely…provid[e] wires, cables, or other communications channels for the use of others."[101] Aereo is not *solely* providing equipment, as is the case with traditional antenna manufacturers. It is offering a "service" that delivers to its subscribers, on a continual basis and for a monthly service fee, broadcast network content. Even if Aereo were to comply with the compulsory license provisions of Section 111, it will remain unprotected. That section provides that a "secondary transmission…not permissible under the rules, regulations, or authorizations of the Federal Communications Commission," is not exempted.[102] As broadcast networks have opted to proceed under the retransmission consent provisions of the 1992 amendments to the Communications Act, "[n]o cable system [can] retransmit [a broadcast network's] signal…with[out] the express authority of the originating station."[103] Aereo's service, therefore, is not "permissible under the rules… of the Federal Communications Commission"[104] and consequently, is not exempt from liability under the compulsory license provisions of the Section 111.[105]

Conclusion

Since March 14, 2012, Aereo has been running the risk that it may be delivering secondary transmissions "to the public" in violation of the copyright holders' exclusive public performance right. As the litigations unfold, the courts are likely to generate opinions that will be critical to the development of copyright liability in this ever-expanding area of alternative distribution outlets. In doing so, the courts should discard technologies like Aereo's that are designed in a specific way solely to escape copyright liability. If all else fails, the bottom line should be that "[Aereo is a] commercial enterprise[] whose basic… operations are based on the carriage of copyrighted program material and that copyright royalties should be paid by [it] to the creators of such programs."[106]

Endnotes

1. Ari Levi, *IAC Chairman Diller Sees Aereo TV Service in up to 100 Cities Within Year*, Bloomberg (Mar. 12, 2012, 4:34 PM), http://www.bloomberg.com/news/2012-03-11/diller-sees-aereo-tv-service-in-up-to-100-cities-within-year.html.
2. Brian Stelter, *A New Way To Stream Broadcast Television*, N.Y. Times, Feb. 15, 2012, at B1.
3. Complaint at 1, ABC, Inc. v. Aereo, Inc., No. 12 Civ. 1540 (AJN) (S.D.N.Y. Mar. 1, 2012) [hereinafter ABC Complaint]. A hearing was held on the preliminary injunction issue and at the time of this writing, the parties were awaiting a decision from the district court.
4. Stelter, *supra* note 2, at B1. Barry Diller's company, IAC/InterActiveCorp has contributed to Aereo, Inc.'s funding, and Diller himself is on the board of directors. Sam Thielman & Katy Bachman, *New Company Aereo To Provide Online Streaming of Broadcast TV*, Adweek (Feb. 14, 2012), http://www.adweek.com/news/technology/new-company-aereo-provide-online-streaming-broadcast-tv-138243.
5. *Id.* Including CBS, ABC, NBC, and Fox.
6. Press Release, Aereo, Inc., Aereo Transforms Television Access with Bold New Technology that Gives Consumers Choice and Flexibility (Mar. 14, 2012), *available at* https://aereo.com/assets/marketing/mediakit/press_release_3-14.pdf.
7. Stelter, *supra* note 2, at B1.
8. *See* ABC Complaint, *supra* note 3; Complaint, WNET v. Aereo, Inc., No. 12 Civ. 1543 (S.D.N.Y. Mar. 1, 2012) [hereinafter WNET

Complaint]. In *ABC*, the plaintiffs are ABC, Inc., Disney Enterprises, Inc., CBS Broadcasting, Inc., CBS Studios, Inc., NBCUniversal Media, LLC, NBC Studios, LLC, Universal Network Television, LLC, Telemundo Network Group, LLC, and WNJU-TV Broadcasting, LLC. Complaint, *supra* note 3. In *WNET*, the plaintiffs are WNET, Thirteen, Fox Television Stations, Inc., Twentieth Century Fox Film Corporation, WPIX, Inc., Univision Television Group, Inc., The Univision Network Limited Partnership, and PBS. WNET Complaint, *supra*. The district court granted Aereo's motion for judgment on the pleadings with respect to the unfair competition claim in WNET v. Aereo.

9. *See* ABC Complaint, *supra* note 3; WNET Complaint, *supra* note 8.
10. Rick Burgess, *Aereo Offers TV-over-Internet with Antennas Engineered To Comply with Law*, TechSpot (Feb. 16, 2012, 7:30 AM), http://www.techspot.com/news/47467-aereo-offers-tv-over-internet-with-antennas-engineered-to-comply-with-law.html.
11. *Id.*
12. Cartoon Network LP v. CSC Holdings, Inc., 536 F.3d 121 (2d Cir. 2008).
13. *See, e.g.*, Answer and Counterclaim, ABC, Inc. v. Aereo, Inc., No. 12 Civ. 1540 (AJN) (S.D.N.Y. Mar. 12, 2012) ("Aereo merely provides technology…that consumers may use to do that they are legally entitled to do:…record and play back…unique recordings utilizing a remotely-located digital video recorder ('DVR') to personal devices.") (citing *Cartoon Network*, 536 F.3d 121); Press Release, *supra* note 6.
14. James Grimmelmann, *Copyright Arbitrage in Action*, PrawfsBlawg (Feb. 27, 2012, 4:15 PM), http://prawfsblawg.blogs.com/prawfsblawg/2012/02/copyright-arbitrage-in-action.html.
15. *See Cartoon Network*, 536 F.3d at 140.
16. *Id.* at 139.
17. Stelter, *supra* note 2, at B1.
18. *Cartoon Network*, 536 F.3d at 139.
19. Answer and Counterclaim, *supra* note 13.
20. Although this article does not focus on contributory infringement, Aereo is also likely to be found liable for contributory infringement. *See infra* note 89.
21. U.S. Const. art. I, § 8.
22. Sony Corp. v. Universal Studios, Inc., 464 U.S. 417, 429 (1984).
23. *Cartoon Network*, 536 F.3d 121.
24. 17 U.S.C. § 106(4) (2006).
25. 17 U.S.C. § 501(a) (2006). To establish direct copyright infringement, a copyright owner must prove: "(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original." Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 361 (1991).
26. 17 U.S.C. §§ 502, 504 (2006 & Supp. III).
27. 17 U.S.C. § 506 (2006 & Supp. II).
28. 17 U.S.C. § 106(4).
29. *See generally* Cartoon Network LP v. CSC Holdings, Inc., 536 F.3d 121 (2d Cir. 2008).
30. *Id.* at 123.
31. *Id.*
32. *Id.* at 124.
33. *Id.*
34. *Id.*
35. *Id.*
36. *Id.*
37. *Id.* at 125.
38. *Id.* at 139. The court also held that Cablevision did not violate the copyright owners' exclusive right to make "copies." *Id.* at 130. The court determined that because "[n]o bit of data remains in any buffer for more than a fleeting 1.2 seconds," that it was not "fixed" and therefore not a "copy." *Id.* at 129–30. The court also looked to "*who* made [the] copy," as "some element of volition" is required to find direct liability. *Id.* at 130 (emphasis added). The court found that the subscriber, rather than Cablevision, made the copy of the programming when it communicated to the RS-DVR to transfer the data stream to the secondary buffer. *Id.* at 132. The court expressed that where, as here, direct liability cannot be found, "the doctrine of contributory liability stands ready to provide adequate protection to copyrighted works." *Id.*
39. 17 U.S.C. § 101 (2006 & Supp. III) (emphasis added).
40. *Cartoon Network*, 536 F.3d at 135.
41. *Id.* at 137.
42. *Id.* at 139.
43. H.R. Rep. No. 94-1476, at 64 (1976).
44. NFL v. Primetime 24 Joint Venture, 211 F.3d 10, 13 (2d Cir. 2000).
45. The cable television industry came into existence "as a means of facilitating reception of television stations by households who were unable to receive satisfactory over-the-air signals because of their geographic location." WPIX, Inc. v. ivi, Inc., 765 F. Supp. 2d 594, 602 (S.D.N.Y. 2011).
46. 17 U.S.C. § 111 (2006 & Supp. III).
47. *See generally* Fortnightly Corp. v. United Artists Television, Inc., 392 U.S. 390 (1968) (holding that cable systems do not "perform" copyrighted material when they transmit the signals to subscribers); Teleprompter Corp. v. CBS, Inc., 415 U.S. 394 (1974) (holding that the use of "distant signals" does not change the fact that cable systems do not "perform" copyrighted material when they transmit signals to subscribers).
48. H.R. Rep. No. 94-1476 at 88–89.
49. M. Nimmer & D. Nimmer, Nimmer on Copyright § 8.18 (rev. ed., Matthew Bender 2011).
50. H.R. Rep. No. 94-1476 at 63.
51. 17 U.S.C. § 111(a)(3) (emphasis added).
52. *See* 17 U.S.C. § 111(c). A cable system claiming protection under the compulsory license must comply with the requirements and conditions under the statute. Such requirements include "reporting requirements, payment of the royalty fees established in the [statute], a ban on the substitution or deletion of commercial advertising, and geographic limits." H.R. Rep. No. 94-1476 (1976).
53. H.R. Rep. No. 94-1476 at 89.
54. *Id.*
55. 17 U.S.C. § 111(c)(2) (emphasis added).
56. Cable Television Consumer Protection and Competition Act of 1992, Pub. L. No. 102-385, 106 Stat. 1460.
57. *See* 47 U.S.C. § 325(b) (2006 & Supp. III).
58. Cable Television Consumer Protection and Competition Act of 1992 § 2(a)(19), 106 Stat. 1462 (1992).
59. *See* 47 U.S.C. § 325(b). The Act requires that every three years, broadcast stations choose, on a system-by-system basis, between must carry and retransmission consent. *Retransmission Consent*, Federal Communications Commission, http://www.fcc.gov/encyclopedia/retransmission-consent (last visited Apr. 20, 2012).
60. Federal Communications Commission, Notice of Proposed Rule Making (Mar. 3, 2011), http://transition.fcc.gov/Daily_Releases/Daily_Business/2011/db0303/FCC-11-31A1.pdf.
61. 47 U.S.C. § 325(b)(1)(A). Under retransmission consent, as opposed to must carry, a broadcast network can request compensation for carriage of its service. *Retransmission Consent*, *supra* note 59.

62. Notice of Proposed Rule Making, *supra* note 60.

63. Interview with Bob Rose, Executive Vice President of Distribution, CBS Sports Network, in N.Y.C., N.Y. (Apr. 12, 2012).

64. Answer and Counterclaim, *supra* note 13, at 1.

65. Stelter, *supra* note 2, at B1.

66. Grimmelmann, *supra* note 14.

67. Stelter, *supra* note 2, at B1.

68. Beth Carter, *Introducing Aereo: One Small Step for Cord Cutting, One Giant Leap of Faith*, Wired (Feb. 14, 2012, 2:46 PM), http://www.wired.com/epicenter/2012/02/aereo-cord-cutting/.

69. The local nature of the Aereo service is not an accident. This locality of the Aereo service likely leads Aereo executives to believe that they can escape the analytical construct of the district court's opinion in *WPIX v. ivi, Inc.*, 765 F. Supp. 2d 594. ivi TV "captures over-the-air broadcasts of [broadcast network] programming and simultaneously…streams those broadcast signals over the Internet to subscribers who have downloaded the ivi TV player." *Id.* at 597. In issuing a preliminary injunction against the service in 2011, the district court based its decision largely on the fact that ivi TV was taking local broadcast television signals and streaming them to a national customer base. *Id.* at 606. ("[T]he compulsory license for cable systems is intended for localized retransmission services, and cannot be utilized by a service which retransmits broadcast signals nationwide."). *Id.* Aereo seems to distinguish itself on this basis and attempts to escape a comparison to ivi TV by preserving the local nature of the broadcast signals. *See* Cable Compulsory Licenses: Definition of Cable Systems, 62 Fed. Reg. 18705, 18707 (Apr. 17, 1997) ("The Office notes that at the time Congress created the cable compulsory license, the FCC regulated the cable industry as a highly localized medium of limited availability, suggesting that Congress, cognizant of the FCC's regulations and the market realities, fashioned a compulsory license with a local rather than a national scope. This being so, the Office retains the position that a provider of broadcast signals be an inherently localized transmission media of limited availability to qualify as a cable system.").

70. Levi, *supra* note 1.

71. ABC Complaint, *supra* note 3, at 2. Since one can bring one's Internet-connected device outside of the home, another issue relevant to the Aereo service is "place-shifting." Place-shifting became a topic of conversation in the copyright world with the advent of the Slingbox. The Slingbox allows a user to "place-shift" his or her television signal to a compatible Internet-connected device. Slingbox is still in existence today, as its legality was never litigated by the television networks. For interesting discussions regarding the copyright liability of the Slingbox technology, see Dominic H. Rivers, *Paying for Cable in Boston, Watching It on a Laptop in L.A.: Does Slingbox Violate Federal Copyright Laws?*, 41 Suffolk U. L. Rev. 159 (2007); Jessica L. Talar, *My Place or Yours: Copyright, Place-Shifting, & the Slingbox*, 17 Seton Hall J. Sports & Ent. L. 25 (2007).

72. Stelter, *supra* note 2, at B1.

73. Grimmelmann, *supra* note 14.

74. Phyllis Furman, *Tablet TV! Diller-Backed Aereo Service To Cut Cable Cord*, N.Y. Daily News, Feb. 15, 2012, at 28.

75. *Aereo Launch*, YouTube (Feb. 16, 2012), http://www.youtube.com/watch?v=bSSxeeOEvaY.

76. *Id.*

77. *Id.*

78. ABC Complaint, *supra* note 3, at 9.

79. Answer and Counterclaim, *supra* note 13, at 2.

80. Levi, *supra* note 1.

81. Answer and Counterclaim, *supra* note 13, at 1.

82. *Id.* at 8.

83. *Id.* (citations omitted).

84. *Id.* at 2, 8.

85. WNET Complaint, *supra* note 8, at 2.

86. ABC Complaint, *supra* note 3, at 3.

87. *Id.*; WNET Complaint, *supra* note 8, at 3.

88. ABC Complaint, *supra* note 3, at 1-2. Plaintiffs in WNET v. Aereo, Inc. also bring forth a theory of unfair competition against Aereo. *See* WNET Complaint, *supra* note 8, at 15 ("By commercially exploiting Plaintiffs' programming and broadcasting infrastructure without authorization, Aereo seeks to compete directly and unfairly with Plaintiffs and their lawful licensees and authorized retransmitters, who pay Plaintiffs for the right to retransmit their broadcasts, including cable and satellite services and other services for delivery of television programming and motion pictures over the Internet and to portable devices. Aereo further takes advantage of and undermines Plaintiffs' substantial creative and financial investment in their audiovisual works, and Plaintiffs' efforts and labor. Aereo is willfully, wantonly[,] and unfairly exploiting Plaintiffs' property interests in their audiovisual works for Aereo's own commercial benefit and in bad faith.").

89. Aereo is also likely to be held liable for contributory infringement for the "copies" made by its subscribers from the DVR function of the Aereo service. As a defense to the contributory infringement claim, Aereo seems to rely on the principles set forth in Sony Corp. v. Universal Studios, Inc., 464 U.S. 417 (1984); Answer and Counterclaim, *supra* note 13, at 1 ("Aereo merely provides the technology…that consumers may use to do what they are legally entitled to do:…create individual, unique recordings of…broadcasts for personal use….) (citing *Sony*, 464 U.S. 417). In *Sony,* the technology at issue was the Betamax video recorders, which allowed consumers to record certain copyrighted works off of their televisions. *See generally Sony*, 464 U.S. 417. The Supreme Court found that, because the Betamax was "capable of substantial noninfringing uses[,]…Sony's sale of such equipment to the general public does not constitute contributory infringement." *Id.* at 456. Aereo's service, however, is distinguishable from the Betamax. The Court in *Sony* based its decision, in part, on the fact that there was no direct relationship with the end user of the product. *See Sony* 464 U.S. 417. The Court distinguished cases where an actor does "not merely provide the 'means' to accomplish an infringing activity," but where, as with Aereo, the actor "supplie[s] the work itself." *Id.* at 436. Aereo's "contribution to the creation of an infringing copy may [even] be so great that it warrants holding [it] directly liable for the infringement." *See Cartoon Network*, 536 F.3d at 133. S*ee generally Sony*, 464 U.S. 417 (for a more in depth discussion of the doctrine of contributory negligence).

90. H.R. Rep. No. 94-1476 (1976) (emphasis added).

91. *Id.*

92. *Aereo Launch*, *supra* note 75.

93. H.R. Rep. No. 94-1476 at 88.

94. *See infra* notes 47–50.

95. Cartoon Network LP v. CSC Holdings, Inc., 536 F.3d 121, 133 (2d Cir. 2008).

96. Grimmelmann, *supra* note 14.

97. H.R. Rep. No. 94-1476, at 64.

98. *NFL*, 211 F.3d at 13.

99. *Cartoon Network*, 536 F.3d at 139.

100. In considering the applicability of the Aereo service to § 111, it is important to note that "[c]ompulsory licenses are a 'limited exception to the copyright holder's exclusive right to decide who shall make use of his [work],' and courts must not 'expand the scope of the compulsory license provision beyond what Congress intended…nor interpret it in such a way as to frustrate that purpose.'" *WPIX*, 765 F. Supp. 2d at 603 (quoting Fame Publishing Co. v. Ala-

bama Custom Tape, Inc., 507 F.2d 667, 670 (5th Cir. 1975)); *see also*, *id.* at 615 ("When Congress enacted Section 111 it wanted everyone to have access to the network television provided by their local broadcast stations. It had no interest in ensuring that all Americans would have several opportunities to watch *The Good Wife* on their computer or Internet-capable device in case they were unavailable at the time it aired….").

101. 17 U.S.C. § 111(a)(3) (2006 & Supp. III).

102. *Id.*

103. 47 U.S.C. § 325(b) (2006 & Supp. III).

104. *Id.*; *see also WPIX*, 765 F. Supp. 2d at 602 ("No technology… has been allowed to take advantage of Section 111 to retransmit copyrighted programming…while not complying with the rules and regulations of the FCC and without consent of the copyright holder.").

105. Not only is Aereo unable to rely on the compulsory license provisions of § 111 because of its failure to comply with FCC rules and regulations, but there is authority that shows that the compulsory license provisions do not apply to Internet distribution outlets at all. *See WPIX*, 765 F. Supp. 2d at 604 ("It is the unwavering opinion of the Copyright Office that a distributor of broadcast programming over the Internet does not qualify for a compulsory license as a cable system under Section 111."); *id.* at 612 (explaining that allowing websites to retransmit television programming over the Internet without consent of the copyright holders "would effectively wrest control away from program producers who make significant investments in content and who power the creative engine in the U.S. economy," and would "undercut private negotiations leaving content owners with relatively little bargaining power in the distribution of broadcast programming").

106. H.R. Rep. No. 94-1476 at 89.

Danielle Clout is an evening student at St. John's University School of Law, where she is a member of the St. John's Law Review. With a background in music performance, her interest in the arts has led her to work in both the radio and television industries. She is also the author of *Assumption of Risk in New York: The Time Has Come to Pull the Plug on this Vexatious Doctrine*, St. John's L. Rev. (forthcoming Fall 2012). She may be reached at dclout.stjohnslrev@gmail.com.

*Addendum

Notwithstanding the arguments in this article, on July 11, the district court denied the plaintiffs' motion for a preliminary injunction.[1] As expected, the court's decision discussed in detail whether *Cartoon Network, LP v. CSC Holdings, Inc.*[2] was controlling. Finding that it was, the court held that Plaintiffs were unable to show a likelihood of success on the merits.[3]

The court's decision hinged on an important factual finding. After conflicting expert opinions were submitted, the court found that Aereo's antennas functioned independently rather than collectively.[4] This determination contributed to the court's reasoning that Aereo's service was akin to the RS-DVR, as the "transmission is made to a single subscriber using a single unique copy."[5]

In the opinion, the court addresses each of the Plaintiffs' arguments in turn. Particularly relevant to this article is the Plaintiffs' argument that, unlike the RS-DVR, the Aereo service lacks a break in the chain of transmission,[6] and thus the Plaintiffs argue that Aereo is "engaged in a public performance that emanates from the original broadcast signal, much like a community antenna which simply passes along a broadcast signal to the public."[7] The court, however, rejected this argument: "Indeed, in light of this Court's factual determination that each antenna functions independently, in at least one respect the Aereo system is a stronger case than [*Cartoon Network*] for attaching significance to such copies because, unlike [*Cartoon Network*] in which multiple copies were all created from a *single* stream of data, each copy made by Aereo's system is created from a *separate* stream of data."[8]

Notwithstanding the court's well-reasoned analysis of the issues at hand, it seems to overlook an important caveat to the Second Circuit's *Cartoon Network* decision: "This holding, we must emphasize, does not generally permit content delivery networks to avoid all copyright liability by making copies of each item of content and associating one unique copy with each subscriber to the network, or by giving their subscribers the capacity to make their own individual copies."[9] The district court's opinion seems to compel a contrary result, however, opening the door for content delivery networks to avoid copyright liability solely by creating unique copies of content.[10] This could result in a diminution of the public performance right as a whole, a result that the *Cartoon Network* court most likely did not intend.

Endnotes

1. Opinion, ABC, Inc. v. Aereo, Inc., No. 12 Civ. 1540 (AJN) (S.D.N.Y. July 11, 2012).
2. Cartoon Network LP v. CSC Holdings, Inc., 536 F.3d 121 (2d Cir. 2008).
3. Opinion, *supra*, note 1.
4. *Id.* at 11.
5. *Cartoon Network*, 536 F.3d at 139.
6. Opinion, *supra*, note 1, at 18.
7. *Id.* (internal quotations and citations omitted).
8. *Id.* at 22.
9. *Cartoon Network*, 536 F.3d at 139.
10. *See generally*, Opinion, *supra*, note 1.

Defense Wins the Game: An Analysis of University Liability Exposure in Club Sports

By Paige Dowdakin

I. Introduction

Club sports, a form of student organization, are an integral part of almost all American universities. These sports range from traditional—such as volleyball, rugby, and lacrosse—to the more unusual—such as ultimate Frisbee, hockey, and martial arts; and they fill in the void when a particular sport is not offered by colleges at the varsity level.[1] Beyond that, it is clear that student organizations and club sports provide a great benefit to universities by boosting school spirit and by attracting prospective students who play sports that are almost never offered outside of the club-sport context, like rugby.[2] Universities, of course, are not the only ones reaping a benefit from club sports. For students, club sports and other student organizations enhance the college experience by facilitating social, mental, and physical development outside the classroom.[3] Club sports and intramural leagues are a "great activity for those students who wish to continue to play competitive sports during their collegiate years, but not at the varsity level."[4] The National Intramural-Recreational Sports Association estimates that more than two million college students play club sports.[5]

One foreseeable result of any sport, unfortunately, is the increased possibility of sport-related injuries.[6] Even though there is a mutual benefit between students and universities playing these club sports, "the risk of liability for injuries caused by participation in these group activities creates an unavoidable tension between universities and their student organizations."[7] This tension of sorts arises from the university's interest in student participation blended with its hesitance to encourage student participation so strongly that it may be held liable for all incidents and injuries related to the sport. When injuries occur during club sports and litigation ensues, universities are often listed as defendants because of their seemingly natural and obvious connection to the club sport.[8]

This high risk of liability has forced universities to reevaluate their roles and relationships with these organizations. Currently, many American universities stand at a crossroads trying to determine whether they should openly sponsor and encourage student participation in club sports and student organizations or whether they should take a more "hands off" approach to try to limit any and all possible liability.[9] Some universities are trying to find this balance by attaching new requirements and conditions to club sports that would forge a relationship between the university and its students, but would limit the autonomy of the club. Universities fearing liability related to club sport injuries have also brought up various defenses to try to shield themselves, including tort immunity and assumption of the risk.

This article seeks to analyze the actual sources for university liability in the realm of student organizations—with a strong emphasis on club sports. Part II will discuss the background of universities' liability to their students, including a historical overview and an explanation of the importance of liability issues. Part III will analyze the current risk of university exposure to liability for sport-related injuries for club sports, common legal theories discussed when analyzing university liability, and whether current approaches used by universities to limit liability "work" and how they affect both students and the university. Finally, a resolution in Part IV proposes several considerations for risk managers in creating programs that are both liability-minimizing and beneficial to universities and students.

II. Background

A. History of a University's Liability to Its Students

The legal relationship between a university and its students has significantly evolved over the past century. The nature of this relationship is a "complex mix of competing rights and responsibilities which has evolved…and…developed since the early 1800s."[10] The legal status of students has been contested by students, parents, school officials, and local community members;[11] and as previously stated, has created a large area of contention between universities, who would like to provide students with the opportunity to develop outside the classroom, and students, who seek to hold universities accountable when injuries arise out of these opportunities.

1. *In Loco Parentis*

Stretching from the early Nineteenth Century to the period directly before the Civil Rights Movement of the 1960s, the legal relationship between American universities and their student attendees was referred to as *in loco parentis*.[12] The most noteworthy quality of the *in loco parentis* era is that power was located in the university, and not with students or other entities.[13] Under the doctrine of *in loco parentis*, colleges and universities could "govern their students much like parents govern their children."[14] What is often misunderstood about this era, however, is that *in loco parentis* was a source of legal immunity, not legal duty, such that a student could not sue his or her college just as the student could not sue his or her parents.[15]

The landmark case of the era, *Gott v. Berea College* (1913), held that universities "stand *in loco parentis* concerning the physical and moral welfare and mental training of the pupils, and [may] make any rule or regulation for the government or betterment of their pupils that a parent could for the same purpose."[16] In the case, Berea College was allowed to restrict students from attending particular off-campus venues, such as bars and restaurants.[17] Furthermore, the college was allowed to punish students within reason for violating these restrictions.[18] Taking elements from the holdings in *Gott* and other cases from the era, courts have pulled out three distinct features of the *in loco parentis* doctrine:

> First, the power *in loco parentis* was one to discipline, control, and regulate. Second, the power was paternal—by analogy to the family and directly as the function of the delegation of *parens patriae* (the paternal power of the state.) Third, the power was a *contractual delegation* of authority among states, trustees, and officials: students were not contracting parties but were subjected to, and governed by, the contract.[19]

Campus life followed the *in loco parentis* model until the second half of the Twentieth Century, which brought a fundamental political change not only regarding new freedoms in American society but also freedoms for students against the strict paternal-like control of their colleges and universities.

2. The 1960s Civil Rights Movement and the End of *In Loco Parentis*

The social and political changes taking place during the 1960s contributed to a distinct shift in the attitude regarding the legal relationship between universities and students.[20] This shift was largely an added effect of the Vietnam War, the Civil Rights Movement, and the Twenty-Sixth Amendment that lowered the age of majority to 18 years—all of which proved to society that college-aged students deserved increased autonomy and no longer needed to be under the paternal-like control of the *in loco parentis* university.[21] Furthermore, the 1960s centered around social revolution, picketing, rioting, and the general fight for reform against denial of basic rights to black and female students.[22] Students who were expelled or wronged under this movement for asserting their basic Constitutional rights of free speech and association had to seek justice, and thus, sued their universities.[23] Consequently, the protection that *in loco parentis* provided soon became almost obsolete in the 1960s.

Jurisprudence during this period highlighted the new view of student autonomy and student rights against universities.[24] For instance, the landmark case of *Dixon v. Alabama State Board of Education* solidified students' status as constitutional adults.[25] The case involved a group of black students who were expelled without notice for allegedly participating in civil rights demonstrations.[26] The court held in favor of the students, finding that a public college could not expel students without at least minimal due process.[27]

Regardless of these new developments in the legal relationship between students and universities, difficult questions remained regarding the apportionment of liability and responsibility for student safety on campus, and therefore, the decade following the Civil Rights Movement saw a new era which sought to address these issues.[28]

3. The Bystander Era (1970s–1980s)

After the fall of *in loco parentis*, college students were no longer treated as children needing supervision by their universities; yet, they were not yet viewed as full-fledged adults. Adding to this, universities in the United States began experiencing an immediate growth spurt as the Baby Boom generation became college-aged, which both increased the size of universities and raised the potential for "dangerous and divisive" activities on campus.[29] As a result of this added potential for danger and injury on campus, American courts had an increased volume of lawsuits against universities and began approaching these suits using the legal analysis of "duty" or "no duty."[30] In other words, most student cases against their universities were personal injury and negligence claims in which the court had to consider whether the universities owed students a special "duty" that would make them liable for the resulting harm.[31]

This era, lasting from the mid 1970s to the mid 1980s was "troublesome as courts were not uniform in their application of reasoning, resulting in a large number of contrasting opinions as to when and under what circumstances universities owed students a duty of care."[32] During this era, universities shouldered new business responsibilities; but on the other hand, courts often found that universities, like third-party bystanders, owed no duty to students in cases involving alcohol and other dangerous activities.[33] For instance, in *Rabel v. Illinois Wesleyan University*, a female university student who received debilitating injuries after being the victim of a campus fraternity prank was unable to find liability in the university, even though the fraternity was registered with the university and the injury happened on campus grounds.[34]

Although courts during this decade were unable to reach a consensus on when a duty or special relationship existed between students and universities, it was clear that the question of duty would be the controlling factor in finding liability for the long haul.

4. The Modern "Duty" Era

The bystander era of the 1970s and 1980s that introduced courts to the notion of special relationships between universities and their students has led us to the current era in which university legal responsibility is on the rise.[35] While courts are still reluctant to impose a duty when the injury arises out of an alcohol-related danger, it is clear that a shift of some sort has occurred, leading to the erosion of the "no-duty-to-student bystander case law and the rise of successful student litigation regarding physical safety on campus."[36] Those seeking to hold universities responsible for student sport injuries have produced some creative theories in order to find liability; and interestingly, some courts have gone along for the ride.[37] These theories will be discussed below in greater detail.

B. Why Do We Care About a University's Liability to Its Students?

Analyzing liability issues in relation to club sports goes beyond finding potential areas of weakness in a university's risk management plan and correcting them; at heart to this issue is finding a solution that will mutually benefit both the university and its entire student population. Personal injury lawsuits are often devastating to both parties involved: tort lawsuits are extremely time consuming and expensive, and "the negative publicity from tort lawsuits, for both the campus recreation program and its institution, can be overwhelming."[38] For this reason, it is quite beneficial for universities to limit their exposure to litigation. Yet, many find it difficult to justify finding no special relationship or duty between a university and its students when it is clear that colleges and institutions are benefiting just as much as—if not more than—each individual student participating in club sports.[39]

III. Analysis

Although this article is focused on issues surrounding club sports, this analysis will also include cases and examples from intramural sports, as students in both categories are considered "private students," and therefore run into a similar set of legal theories and defenses when injured during their activities.[40] The difference between these two groups is that club sports compete in an intercollegiate manner and are often student-run organizations—even though they are theoretically supervised by campus recreation programs, while intramural sports typically compete solely on their own campus and are the responsibility of campus recreation departments.[41] This analysis will also include cases involving student-athletes and students participating in registered student organizations, as these variations provide particular examples that lay down the groundwork for a specific legal theory.

A. University Exposure to Claims, Lawsuits, and Liability Issues

Particular limitations arise when examining the exposure of universities to liability issues stemming from club and intramural sport injuries. First, conducting a search of all related cases can only show so much. Case law research depends on what Westlaw and Lexis-Nexis have deemed important enough to include in their databases. Next, few civil cases actually go to trial, which means that there could be a broad array of relevant cases that have either been settled outside of court or have been dismissed because of procedural issues. Finally, it likely that the majority of club sport injury cases are handled "behind the scenes"—whether the incident was covered by the student's own insurance or was handled through a claims department at the university.

Taking the above limitations into account, relevant case law is still able to provide an overview of liability exposure and common theories used to show university liability. Over the past 30 years, there have been roughly 32 tort cases involving college campus recreation programs.[42] Of these decisions, 26 fell into the category of personal injury cases.[43] Through these cases, injured students have attempted to hold universities liable under theories of a special relationship leading to "duty," an assumption of duty, premises liability, and even agency relationship. In response, universities have used the defenses of assumption of the risk, waiver, recreational use, tort immunity, and charitable immunity, among others. The majority of these lawsuits resulted in favorable holdings for the university and not for the injured party.[44] Although these results may be encouraging for university counsel or risk management, it is important to take into account how these holdings may possibly affect the university and student relationship as well as the student's college experience.

B. Common Methods of Creating University Liability

1. Special Relationship

One of the most common theories of recovery used to impose liability on universities for student injuries is to invoke a heightened affirmative duty of care on the university by arguing that the student-university relationship qualifies as "special."[45] As it currently stands, this theory has been much more successful when dealing with the relationship between universities and student-athletes as opposed to private students who participate in club sports.[46] Still, this approach has been used in several cases involving club or intramural sport participants, and could possibly be used successfully by the injured party, depending on the particular intricacies of the situation. In determining whether a special relationship exists between the university and student, courts have looked to whether the two following elements exist: (1) mutual dependence, and (2) control.[47]

a. Mutual Dependence

Mutual dependence, the first element in establishing a special relationship between two parties, reflects the notion that both parties are benefitting from one another. Several factors may show whether there is mutual dependence in a particular university-student relationship. First, courts have looked to whether the student was actively recruited by the university to engage in that particular sport.[48] In *Kleinknecht v. Gettysburg College*, the Third Circuit argued that there was a mutual dependence from a college lacrosse player's recruitment because "the College recruited [the athlete] for its own benefit, probably thinking that his skill at lacrosse would bring favorable attention and so aid the College in attracting other students."[49]

Next, courts have looked at the mutual benefits involved by having the student represent the school. In *Davidson v. University of North Carolina*, a college cheerleader on the Junior Varsity (JV) squad sustained permanent brain damage after falling while practicing a pyramid stunt before a basketball game.[50] The Court of Appeals of North Carolina found there to be mutual dependence between the injured student and the university because first, the university largely depended on and benefited from the JV cheerleaders.[51] The JV squad performed at JV basketball games, women's basketball games, and wrestling matches; the squad also represented the University of North Carolina at trade shows and acted as representatives of the school at official athletic events.[52] The court noted that the JV cheerleaders received significant benefits from the university, in that they were given school uniforms, provided with transportation by the university, and used equipment and facilities provided by the university.[53] These elements combined created a mutual dependence between the parties.

It is important to note that both *Kleinknecht* and *Davidson* involved student-athletes as opposed to private students; however, this does not mean that private students are excluded from such an analysis. Rather, private students have just struggled to meet the strict requirements for imposing a heightened duty based on mutual dependence.[54] For instance, in *Vistad v. Board of Regents of the University of Minnesota*, the Minnesota Court of Appeals found no mutual dependence between the University of Minnesota Duluth (UMD) and a university student who was injured while participating in the basketball cheerleading squad, a student organization.[55] To analyze mutual dependence, the court looked to whether the plaintiff was vulnerable or expected some form of protection, and whether the university was benefitted from her participation.[56] Although the cheerleading squad performed at the university's basketball events and was given funding for uniforms and travel expenses, UMD did not profit from the basketball or cheerleaders, and was therefore not "benefited."[57] The court also found no apparent vulnerability from the adult student or reasonable expectation that she should be protected by the university, but the court did not elaborate further on this element.[58]

This hesitance to find a mutual dependency between universities and private students was extended in two other cases: *University of Denver v. Whitlock* (1987) and *Gonzalez v. University System of New Hampshire* (2004).[59] In *Whitlock*, a private student was paralyzed while jumping on a trampoline at his fraternity, which was a student organization.[60] The court "emphasized the importance of mutual dependency in finding a special relationship, although it found that the plaintiff…did not have any reason to depend on the University to protect him in his extracurricular trampoline jumping."[61] As a result of this lack of mutual dependence—along with several other factors, including the student's intoxication—the court found no special relationship. In *Gonzalez*, the Superior Court of Connecticut found no mutual dependence between Keene State College and a student member of the cheerleading club, although interestingly, the court denied summary judgment for the university, finding that there was a question of fact as to whether a special relationship existed.[62] In finding no mutual dependence, the court noted that the college did not recruit the students, award them with scholarships, require them to abide by any special standards of conduct, or have them represent the school at any activities.[63]

b. Control

The second element typically required by courts when invoking an affirmative duty of care between a university and its students is some exertion of control by the university. The reasoning behind this is that when a university exerts significant control over students as a result of their participation in sports, the students may have higher expectations regarding the protections they will receive from the institution.[64] Courts take several factors into account when examining a university's control over a student, including university funding, where and when the injury occurs, whether there was a university coach or advisor, and whether the university regulates other aspects of the student's academic experience. Typically, a showing of control requires a number of these factors to be met.[65]

Kleinknecht presents a clear example of a university's control over its student-athlete. The student in *Kleinknecht* was a member of an intercollegiate lacrosse team sponsored by the college, he was participating in a scheduled practice, and he was under the supervision of a coach.[66] Taking all of these details into account, the court found that the college exerted a higher degree of control over the student as an intercollegiate athlete as opposed to a typical private student.[67] Similar to *Kleinknecht*, the court in *Davidson* was able to find control between the University of North Carolina and a member of the JV cheerleading squad, as the university required its cheerleaders to abide by certain standards of conduct and maintain a minimum Grade Point Average (G.P.A.).[68] The student in *Davidson* testified that she expected the university to look out for her and train the cheerleaders adequately.[69]

The ability for a court to find control becomes less clear when dealing with a private student, but courts have nonetheless found universities to exercise control in such situations. In *Gonzalez*, as noted above, the Superior Court of Connecticut denied summary judgment for the university, finding that it was likely that Keene State College maintained a significant degree of control over its club cheerleaders.[70] This holding rested on the following four factors: first, that the cheerleaders used university facilities, second, that they were entitled to university funding, third, that an advisor could maintain a degree of control over club activities and respond if their actions were found inappropriate, and fourth, that the club members were required to maintain a minimum G.P.A.[71] The court also noted in this case that the voluntary participation in the club by its members was irrelevant, as several other categories of special relationships are between voluntary parties.[72]

In *Furek v. University of Delaware*, the Supreme Court of Delaware held that a university could be liable for student injuries arising out of fraternity hazing.[73] Although atypical to the majority of courts that generally do not find a duty when cases involve alcohol-related injuries, the court here found that the University of Delaware exercised control over the organization by advising the students about the dangers of hazing, regulating such activities, and implementing a disciplinary policy for hazing.[74]

The cases in which courts found that the university did not exercise control over a student varied in their approach, but typically rested on a lack of contact between the university and the injured student. Both *Fox v. Board of Supervisors* (1991) and *Fisher v. Northwestern State University* (1993) involve student-run organizations that had minimal coaching or contact with university faculty.[75] In *Fox*, a visiting Minnesota student was injured at a rugby tournament at Louisiana State University (LSU), and sued the college under a theory of vicarious liability arising out of LSU's control of its rugby club.[76] The court held that although the club was chartered by the school, provided with some financial assistance and a faculty advisor, and able to practice on the LSU parade grounds using limited university equipment, there was still no special relationship because it was a voluntary, student-run club.[77] Likewise, in *Fisher*, the court rested on the fact that the Northwestern State University cheerleading squad was student-run due to university time constraints and a limited budget, and therefore, had no special relationship with the university.[78]

Although likely obvious, being a player from an opposing team typically gives rise to a lack of control from the host university. In *Kavanagh v. Trustees of Boston University* (2003), an intercollegiate basketball player brought suit against Boston University after being injured by a member of the Boston University basketball team.[79] When analyzing whether the visiting student and Boston University had a special relationship, the Supreme Judicial Court of Massachusetts stated that "the university did not exert any form of control or influence over Kavanagh, or affect his ability or motive to protect himself the injured student" and, thus, he had no relationship with Boston University, special or otherwise.[80]

C. Arguments For and Against the Special Relationship

Legal scholars, courts, and private citizens diverge on whether or not a special relationship should exist between a university and private students. Those in favor of finding a special university-student relationship have first argued that nearly all legal entities are required to act as a reasonably prudent person would in like or similar circumstances, and there is no reason why a university—of all institutions—should be held to different standards.[81] Second, proponents of finding a special relationship have argued that universities are not merely educators, but are also active participants in the lives and safety of their students; and thus, "imposing liability on universities will ensure that universities actually carry out their implicit promise to parents to protect the students."[82] Finally, it has been argued that students will get hurt regardless of whether they have insurance and regardless of whether the university retains liability for these injuries, and therefore, the university should be held liable for the injuries to guarantee that students will be given adequate compensation for their injuries.[83]

Opponents to finding a special relationship have first argued that finding a special relationship would be an unjust cost to universities, stating:

> [I]t is unclear how the policy of preventing future harm would be fostered by finding a special relationship between universities and the participants in their intramural events, since it is unclear how those events could proceed if every injury suffered by a participant might expose the university to liability. The extent of the burden on the defendant created by a requirement that it protect every intramural participant from harm at the hands of every other would be extraordinary, as would be the likely increase in the defendant's insurance premiums (if it could still obtain insurance for intramural events). Finally, the likely consequences to the community would be the abandonment of intramural sports by colleges and universities, which would serve no one's interest.[84]

A final argument in opposition of creating a special relationship is that an upward swing of finding liability or an affirmative duty to act will force universities to remove themselves from activities, which may actually cause more injuries to occur.[85]

2. Assumption of Duty

Injured parties do not stop at the special relationship theory when attempting to hold a university liable for an injury arising out of club sport participation. Assumption of duty, also known as voluntary undertaking, is another argument that may be used. Under a negligence analysis in tort law, an affirmative duty arises when one party volunteers or "assumes" the duty of aiding another.[86] Assumption of duty speaks to the element of "control" necessary in finding a special relationship; however, it does not require a finding of mutual benefit. Unlike special relationship, the assumption of duty analysis looks more closely at the steps taken by universities to regulate and aid student activities, as opposed to the mutual give-and-take between the university and its students. Further, unlike the special relationship theory, courts are generally less hesitant to establish university liability based on the assumption of duty rationale.[87] Since this theory is so similar to the special relationship analysis, parties generally bring up both arguments simultaneously.

The largest factor in finding an assumption of duty is whether the university took an active role in regulating the rules and safety for the activity causing the injury.[88] In *Davidson*, the court argued that even if there was found to be no special relationship between the parties, the University of North Carolina still "voluntarily undertook to advise and educate the cheerleaders regarding safety."[89] The evidence shown by the court was that the university assumed certain responsibilities to teach the cheerleaders about safety, including the involvement of the Dean and Assistant Athletic Director in urging the cheerleaders to adopt particular safety guidelines.[90] In this case, the university attempted to regulate the cheerleader's safety, and was found to have assumed a duty to the cheerleaders.

Similarly, in *Furek*, the Supreme Court of Delaware applied the voluntary undertaking analysis in finding that the university may be held liable for the injuries of a student organization member when the university was aware of the danger involved in the activities and undertook to regulate those activities.[91]

a. Arguments Regarding Assumption of Duty

Due to of this theory's comparable nature to the special relationship theory, arguments regarding assumption of duty generally follow a similar path. One new argument arising in opposition of this theory is that by-and-large, no other policing institution is found liable to those it polices, and if using such police powers creates liability for a university, then "every local government would create a special relationship with its citizens merely by establishing a police force."[92]

3. Premises Liability

Students may also try to bring a claim against a university under a theory of premises liability. In such cases, "the university is analogous to a landlord in its duty to its students to exercise reasonable care in the operation and maintenance of premises for the protection of business or public invitees."[93] In order for a student to qualify as a business or public invitee, the injured party must generally benefit the college by his or her presence on the property.[94] Typically, students meet this simply by paying university tuition and being a member of the university.[95] There are two important limitations to this theory of recovery. First, the university as a landowner will not be held liable for injury caused by a condition or activity on the land that is open or obvious to the invitee, "unless the landowner should anticipate the harm despite such knowledge or obviousness."[96] Second, the injury must be reasonably foreseeable to the university as a landowner or the university must have prior knowledge of the dangerous condition.[97]

Analyzing case law regarding premises liability brings up a number of issues. First, because these cases involve actual hazards on university property, it seems likely that a large number of injuries occurring from such hazards would be settled outside of court. Therefore, there appears to be a disproportionate amount of published cases holding in favor of universities. Second, this type of claim may be brought by visiting athletes and third-party spectators, and is not limited to the university-student relationship.[98] Third, because this is a common theory of finding negligence, courts are generally more inclined to impose an affirmative duty under such an analysis,[99] but courts "also allow universities to use traditional tort defenses such as assumption of risk, and comparative and contributory negligence, once a duty is assessed, to deflect liability."[100]

As stated above, there seems to be a disproportionate number of published premises liability cases holding in favor of universities. The case *Curtis v. State* holds true to this theory.[101] In that case, an intercollegiate football player for Ohio State University was injured when his foot went through the glass of door in a field house.[102] The court held in favor of Ohio State University, arguing first, that the university was not necessarily aware of the risks of the glass doors of the field house being broken, and second, that the injury was not foreseeable to the university as no similar injury had occurred for nearly 10 years.[103] This case outlines the notion that although there may be a hazard on a university's premises, a student as an invitee still might not be able to hold a university liability for the condition of its land.

4. Respondeat Superior

What happens when a club sport participant intentionally or negligently injures a visiting player? A somewhat new development is the argument that a student or student-athlete is an agent of the university, and that under a theory of *respondeat superior*, the university would be liable for all injuries of third parties that result from torts committed by the student agent.[104] This almost always will be a failed argument for a club athlete; but it is worthwhile to look at the issues surrounding such a claim because discourse continues today among legal scholars as to whether athletes and scholarship recipients should be considered employees of their college.

The agency relationship is one between an employer and employee, or "master and servant," and a finding of agency relationship typically rests upon whether the injured party was acting in the course of employment when he or she was injured.[105] Also important in this analysis is the amount of control exerted by the university and whether the player voluntarily agreed to the terms of the club sport.[106]

In *Hanson v. Kynast*, a visiting lacrosse player from Ohio State University sustained paralyzing injuries when he was rammed by an Ashland University lacrosse player while playing in a game at the Ashland lacrosse field.[107] The injured player argued that the Ashland student's participation in lacrosse converted his status to that of principal-agent due to the control exercised by the Ashland lacrosse coach; however, the Supreme Court of Ohio disagreed.[108] The court explained several factors used in determining whether an agency relationship exists, including whether the individual is performing in the course of the principal's business, whether the individual was receiving any compensation, and whether the principal supplied the tools and place of work.[109] The court explained that none of these elements were met, as the Ashland player was not performing in the course of the university's business—i.e. he was not educating students; he was never compensated for playing on the team; and even though he played on the Ashland fields, he used his own equipment.[110]

Receiving a scholarship in return for playing an intercollegiate sport is also likely not enough to constitute a principal-agent relationship. In *Kavanagh*, along with his special relationship argument, a visiting basketball player tried to argue that Boston University was liable to him through a theory of *respondeat superior*.[111] The court clarified that "[w]hile scholarships may introduce some element of 'payment' into the relationship, scholarships are not wages."[112]

Finally, for club sports, it appears that the principal-agent argument is too far-fetched to hold any merit. In *Fox*, a visiting club rugby player attempted to hold Louisiana State University liable under a *respondeat superior* theory for an injury caused by a Louisiana State player, but the court found the relationship between the Louisiana State player and his university lacked the necessary element of "control," because he voluntarily accepted the terms of the club sport.[113]

C. University Defenses to Liability

Finding a special relationship, assumption of duty, premises liability, or an agency relationship, does not create automatic liability for the university. While the above theories typically show an affirmative duty owed, the university still has an opportunity to use legal defenses as a rebuttal. Taking a step back, universities can and do take precautionary measures in order to never reach a finding that they owe a duty. These precautionary measures, or shields, and rebuttal defenses, or swords, are discussed below.

1. University "Shields" to Avoiding Liability

a. Waiver

In order to protect themselves from liability exposure, colleges often require students to sign waivers or exculpatory agreements. This type of shield is legally referred to as "express assumption of the risk." By expressly signing a waiver, a student may contractually release a university from its duty of reasonable care.[114] Courts are generally prone to uphold such agreements, but there are exceptions where courts reject the use of waivers as a defense.

One such exception occurs when the court finds that the waiver is void due to public policy. In *Kyriazis v. University of West Virginia*, a student suffered a basilar-artery thrombosis during a rugby club practice on campus.[115] The student had signed an exculpatory agreement in order to play for the club team, but he argued first that it was void under public policy because he had no choice but to sign it if he wanted to play, and second, that the waiver was void as it reflected an unequal bargaining power between the parties.[116] The court agreed, finding that while the general rule is that an exculpatory agreement will be upheld, this particular waiver violated public policy because it exempted a party charged with a duty of public service from tort liability.[117] Furthermore, the court found that the university had a decisive advantage in bargaining strength over the student when he signed the release since he was forced to sign it if he wanted to play club rugby.[118]

Another exception denying the use of waivers is where a jurisdiction does not recognize exculpatory agreements. In *Gonzalez*, the court held that an exculpatory agreement signed by a club cheerleader was invalid under New Hampshire law.[119] The court reasoned that exculpatory contracts are generally prohibited in New Hampshire—particularly if they violate public policy—and in this situation, the agreement did not state with clear language that the school was relieving itself from liability.[120]

b. "Hands Off" Approach

Some universities have taken extensive risk-management measures to shield themselves from liability by reevaluating their relationship with club sports and taking a "hands off" approach to dealing with the student participants. A university that uses this approach "essentially gives up control of the student organizations through non-regulation. Under this theory, the less responsibility that the university assumes for an organization, the less likely it will be held liable for the organization's actions."[121] By completely refusing to be involved with club sports, a university takes itself out of the picture and places the student's involvement in the realm of his or her own affairs.[122]

Methods used by universities to relinquish control consist of refraining from funding, governing and regulating club activities.[123] Universities may also take measures to make it clear to students that their recognition of a club sport does not constitute a special relationship or acceptance of liability for their actions.[124] This approach often requires university faculty and advisors to avoid dealing with students in an official university capacity.[125]

i. Arguments for and Against the "Hands Off Approach"

Proponents for the "hands off" approach argue that it is the best course of action for the university because the university has less work to do regulating organizations, and moreover, will likely not owe an affirmative duty of care to its club sport participants.[126] Opponents of this approach, on the other hand, are concerned with the possible effects for both students and the university. When a college or university gives up all control of club sports, students appear to take on the majority of the burden. First, without university approval, students may not be able to compete in an intercollegiate manner, as university recognition is often a requirement to being a club team.[127] Furthermore, even if the club sport continues, the team will have difficulty obtaining faculty advisors because faculty members will not want to volunteer when they may be held personally liable for any injuries.[128] For universities, a "hands off" approach may risk the university's reputation with the public when it stops endorsing club sports and asserts that it has no duty of care to its students.[129]

c. Increased Control Approach

In contrast to the "hands off" approach, another extreme taken by some universities is to increase control of its students to such a degree that it will avail itself to liability.[130] A university practicing increased control will not only maintain control over the club sport, but will also "limit the risk of liability through continuous implementation of carefully conceived regulations and guidelines."[131] This approach has been adopted in part by the University of Michigan, which conditions the recognition of club sports to whether the university has the adequate resources to supervise the club and its activities.[132]

i. Arguments for and Against the Increased Control Approach

Those in favor of the increased control approach argue that universities are able to save money by avoiding unnecessary legal costs and by decreasing the chance for liability by imposing regulations on club sports and requiring compliance.[133] Proponents of the approach also point out that students are benefitted most from this method because they are better protected by the affirmative duty of universities, and because they can receive a stronger extracurricular educational experience if they are able to have university-sponsored faculty-student interaction.[134]

Those against the increased control approach have expressed concerns about the cost and time requirements for universities, which already struggle in the current state of the economy.[135] Additionally, opponents have argued that exerting such control will severely limit the autonomy of club sports as student organizations. University regulations will force the clubs to act in a certain manner, and university control may include clubs losing their financial autonomy to hold off-campus accounts for funding purposes.[136]

2. University "Swords" in Rebutting Liability

a. Assumption of the Risk

If a court finds that a university owes an affirmative duty to a particular club sport participant, the "assumption of the risk" doctrine can be used as a defense to injuries associated with the club sport or activity.[137] This defense is brought up in nearly all personal injury cases, and its effects range from diminishing part of an injured party's recovery to entirely eliminating a defendant's liability. There are three variations of the assumption of the risk doctrine, but for the purposes of this analysis, only the first two are relevant to club sports.

The first variation is known as "express assumption of the risk," which occurs when a student signs a waiver or a release that expressly releases the university from liability for some or all acts—negligent or otherwise—that may cause injury.[138] As noted above, waivers are generally upheld by the courts so long as they do not violate public policy or state statutes.[139]

The second variation of this doctrine is "implied primary assumption of the risk." This variation applies when the student participates in an activity with an inherent or well-known risk, such as a sport. In these cases, the university would no longer have a "duty," and therefore, would be absolved of liability as it could no longer be found negligent. In order to determine whether an injury arose from an inherent risk of an activity, courts consider five factors: 1) the nature of the sport involved; 2) the type of contest, i.e., intramural, pick-up, or club.; 3) the ages, physical characteristics and skills of the participants; 4) the type of equipment involved; and 5) the rules, customs and practices of the sport, including the types of contact and the level of violence generally accepted."[140] Taking these factors into account, a court will find that a party assumed the risk so long as the university did not increase the risks already associated with the activity.[141]

This defense has been used with particular effectiveness by universities in regard to club sports. In *Gonzalez*, the Superior Court of Connecticut found that a club cheerleader who fell from a pyramid during practice had assumed and accepted the inherent risks of the activity, thus absolving her college from liability.[142] The court found that the student "voluntarily participated in cheerleading stunts such as a pyramid, a reasonable activity that she knew involved obvious risks such as falling,"[143] and "[f]alling from a cheerleading pyramid and thereby sustaining an injury is a risk inherent in and arising out of the nature of cheerleading…."[144]

Under this implied primary assumption of the risk, it is not necessary that the injured student foresees the exact manner in which his or her injury occurred, as long as he or she is aware of the potential for injury arising from that activity.[145] For instance, in *Regan v. State of New York*, a club rugby player at the State University of New York at Oneonta was rendered a quadriplegic when his huddle formation moved to a low area of the field, causing his feet to lift off the ground by the force of his teammates who were pushing him uphill, and his neck was pushed upward and broken.[146] Although the student argued that he was unaware of the consequences of his participation in the sport because of the uneven conditions of the field, the court disagreed, pointing out that the student regularly practiced on the same field, that he played rugby on numerous occasions and had seen prior injuries—albeit less serious than his—and that the risk inherent in the sport of rugby is apparent in and of itself.[147] Therefore, although he did not completely foresee being injured due to his team navigating around a hilly field, he had still assumed the risk of being injured while playing rugby.

The third variation of the doctrine is called "implied secondary assumption of the risk," and it occurs when both parties are negligent, such that the university breaches a duty of care owed to the student, and the student also breaches a duty of care owed to himself or herself.[148] In most states, this variation has been replaced with a "comparative fault" approach, which means that an injured party would not be barred completely from recovery if he or she is found to have been partially negligent under this theory.[149] In the context of club sports, this variation is rarely used, as it is hard to imagine a scenario where a player will be found to act negligently in injuring himself or herself while the university is also negligent in some way.

b. Recreational User

The purpose of recreational user statutes is to protect landowners from liability if their properties are used for recreational activities.[150] Most state recreational user laws follow the general standard that a public entity or public person will not be held liable to any person who participates in a recreational activity for any injury arising out of such activity.[151] While universities continue to rely on these statutes as a defense—especially for claims of premises liability—courts appear to be less likely to apply these statutes for club sports and intercollegiate sports as opposed to informal sports and less controlled activities.

A general rule for these statutes is that intercollegiate sports are not "recreational" within the meaning of a recreational user statute. However, it seems that the reasoning used by courts when determining that intercollegiate sports are not "recreational" also applies to club sports. In *Avila v. Citrus Community College District*, a visiting community college baseball player brought a negligence claim against Citrus Community College when he was hit in the head with a ball by a student member of the Citrus team.[152] The college tried to bring a recreational user defense based on the California statute, but the court held that school sports and organized intercollegiate games are not "recreational" within the meaning of the statute.[153] The court reasoned that sports "in the school environment, are not 'recreational' in the sense of voluntary unsupervised play, but rather part and parcel of the school's educational mission."[154] The court in *Avila* was dealing with an intercollegiate athlete; however, it appears that its definition of non-recreational activity applies to club and intramural sports, in that both have often been said to contribute to a university's educational mission.[155]

In contrast, the recreational user statute would likely apply to a student who was injured on university property while engaging in an activity that constitutes "enjoying the outdoors."[156] In *University of Texas Health Science Center v. Garcia*, a participant in an informal volleyball league tournament hurt his toe while playing on the outdoor sand volleyball courts at the University of Texas Health's Recreation Center.[157] The Court of Appeals of Texas agreed with the university that the recreational user statute applied in this instance because "outdoor sand volleyball is certainly within the type of activity associated with enjoying…the outdoors, and the statute specifically contemplates recreation related to structures on the property such as the outdoor sand court."[158] The court also stated that a sport may be considered non-recreational if the public entity provides funding, equipment, fields or courts, and maintenance of such fields.[159]

c. Charitable Immunity

At one time, the charitable immunity doctrine protected all non-profit entities, such as hospitals, charities, and universities, from tort liability due to negligence. Currently, a majority of states have completely abolished such immunity; however, this defense is still open to those states which grant charities complete or partial immunity.[160] As of 2009, charitable immunity has been abolished in Arizona, California, Connecticut, Washington D.C., Florida, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Missouri, Nevada, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Texas, Utah, Vermont, Washington, West Virginia, and Wisconsin.[161]

Although a large number of states (and Washington, D.C.) have abolished the charitable immunity defenses, a student injured while attending a university in a state that recognizes charitable immunity, or a student who avails himself or herself to be benefited by the laws of such a state, may be barred from bringing a claim.[162] In *Gilbert v. Seton Hall University*, a Seton Hall University student was injured while playing in a rugby match in New York at St. John's University.[163] In federal court, the Second Circuit applied New Jersey state law—which is where the student was domiciled and where Seton Hall University is located—and found that the university was not liable under a theory of charitable immunity.[164] Since New Jersey still recognized the charitable immunity defense for universities and because the student benefited from the laws of the state, he could not bring a negligence claim against Seton Hall University.[165]

i. Arguments Against the Charitable Immunity Doctrine

Aside from the courts that apply the charitable immunity doctrine, the majority view among legal scholars is that charitable immunity does not support any fair notion of liability or recovery. One key argument against charitable immunity is that charities should not be put above the law, which is applicable to everyone, and that protection from bodily harm is of greater importance to mankind than charity.[166] Another argument is that "carelessness is not kindness; it is actionable wrongdoing, albeit by a charity."[167] These arguments have not gone unnoticed, and as previously stated, there is a trend among the states in abolishing or severely limiting charitable immunity.

d. Governmental Tort Immunity (Sovereign Immunity)

A final "sword" used by universities when defending themselves against liability for student injuries arising out of club sports is sovereign immunity. Like charitable immunity, some states have completely abolished their sovereign immunity, and for those states that have kept these statutes, they still may not apply to universities—or specifically, to club sports.[168] For states recognizing sovereign immunity for universities, the institutions and their employees are given immunity from being sued without the consent of the institution.[169]

Sovereign immunity may apply if the injury arises out of a governmental function and if the university is not profiting from the sport.[170] In *Harris v. University of Michigan*, a student on the intercollegiate gymnastic team was injured during gymnastics competition in Colorado.[171] The student brought a claim against the University of Michigan, but the Court of Appeals of Michigan found the university to be protected from liability under a theory of governmental tort immunity.[172] The court described first, given the "broad definition of a governmental function, and in light of the history of intercollegiate athletics at Michigan universities and colleges that has historic support from the Michigan," that intercollegiate athletics are a governmental function for the purposes of immunity.[173] Second, the court noted that the university was not excluded under a proprietary exception to the statute because gymnastics was not a revenue-producing sport.[174] Applying this analysis to club sports, it is unclear as to whether it would apply to club sports in the state. While club sports would not likely bring in revenue to the university—and thus would not be an exception under any proprietary rule—it may not be found that club sports are a governmental function to the same extent as an intercollegiate activity.

There are several important considerations to keep in mind when looking at the defense of sovereign immunity. First, as previously stated, the analysis from *Harris* will not apply to all jurisdictions, as many states do not find universities immune under sovereign immunity statutes.[175] Second, there are other state bars to bringing claims that are not necessarily called "sovereign immunity," but exist with the same purpose of minimizing liability exposure and costs for universities. An example of such a bar is seen in *Rembis v. Bd. Of Trustees of University of Illinois*, in which a student was injured while playing in an intramural ice hockey match.[176] The Appellate Court of Illinois dismissed the case based on a statute requiring that all claims against the University of Illinois Board of Trustees to be brought to the Court of Claims.[177] This statute was created for the mere purpose of protecting the University as a governmental entity when Illinois abolished its sovereign immunity laws.[178]

IV. Resolution and Conclusion

How can universities preserve club sports and other activities while simultaneously reducing liability exposure?[179] The answer to this is that there really is no answer. University risk management walks a fine line in avoiding increasing the risk of possible liability. If the university elects to regulate and control club sport activity, then it must be willing to accept the duties that accompany control; but if a university chooses a "hands off" approach, then it must accept the potential increase in injury that comes with a failure to supervise.[180] It is important to keep in mind that an increase in the possibility of liability for universities does not mean that there is actually a great chance or high probability of liability. As noted above, there have been fewer than 35 documented cases involving campus recreation departments over the past 30 years.[181]

There are, however, certain steps that a university can take in order to ensure that whichever path it chooses, it minimizes whatever chance of liability that exists and maximizes students' benefit. Ideally, the university would take an approach that is mutually beneficial for the student and the school. This resolution explores what a mutually beneficial approach would try to achieve, what approaches minimize liability to the greatest extent, and how these approaches can be applied and modified to meet the needs of students.

A. Mutual Benefit Considerations

1. What Universities Want and Need

First and foremost, universities are in the business of education. Therefore, the greatest need is an economic one. Universities have a strong focus on attracting prospective students and receiving tuition money. Along these lines, the prestige of a university and the level of academically and athletically talented students play a circular role in attracting students. Next, and almost as important, universities are concerned about reducing their exposure to liability and lawsuits. Reducing liability keeps business costs low, and it also affects the prestige and public image aspect of the university.

2. What Students Want and Need

Students who attend a college or university are concerned primarily with learning—whether it is in the classroom, through a social club, alternative learning experience, or through being able to participate in a sport or like activity. Students also, quite obviously, value their safety and well-being. Finally, college students, a generation in between adolescence and adulthood, value their autonomy to make their own decisions, control their own actions, and learn from their increased responsibility.

B. Absolute Minimization of Liability

The above analysis examining various causes of action for club sport athletes and possible defenses makes one thing clear: liability exposure is, in large part, related to control. The amount of control and contact exerted by a university on its club athletes surely affects whether or not it will be found liable for an injury resulting from that club. Therefore, the most absolute risk-minimizing solutions are those which fall on both extreme ends of the "control spectrum."

A "hands-off" approach will surely minimize liability by distancing any connection between the student and the university.[182] Universities will no longer claim these clubs as an affiliation of the school, and there will likely be no affirmative duty of care owed toward students. Yet, this decrease in liability may actually cause an increase in club sport injury because of a lack of university regulation.[183]

An "increased control" approach, on the other hand, will most definitely increase the duty owed by a university to its students, and in the event of injury, the university will be held liable.[184] This approach will, however, reduce the chance of club sport related injuries because of the amount of regulation that universities and campus recreation departments would exert on students in order to ensure safety measures were being met.[185] Still, an increased control approach will limit student autonomy and cause an increase in implementation costs for the university.[186]

C. A Happy Medium: Mid-Control Approach

It is clear that a hands-off approach will minimize university liability, and an increased control approach will minimize chance of injury—which indirectly may cause less liability exposure. Neither solution is a perfect one. Taking into account the needs of universities and students, a "mid-control" approach by universities may be the best path.[187] This approach would take neutral steps to minimize liability; such steps would not include a decision of whether to remove or increase university control. Next, this approach would also include a small number of actions that constitute increased control, but these actions would also help to reduce injuries to an extent that exposure to litigation may not even rise.

1. Neutral Steps

First, all club sport participants should be required to sign waivers. As waivers are generally upheld unless they violate public policy or state law, these agreements are a strong protective measure in avoiding liability. In order to further ensure that a waiver will be upheld, campus recreation departments and risk managers should explain the terms of the agreement to student participants so as to guarantee that a court would find that the students understood the terms to which they agreed.

Second, campus facilities should be maintained for maximum safety. Premises liability claims may be the easiest to avoid if campus property is maintained and all hazards are fixed or removed. Third, campus recreation departments should avoid interfering with students' academic lives. They should not award scholarships, and they should not set grade point average requirements for participants.[188] This suggestion is given with the assumption that a student's G.P.A. is high enough that he or she is still registered at and in good standing at the university. Finally, university funding should be avoided if possible. Providing scholarships, free transportation, or equipment may show a court that a university is receiving a mutual benefit from the student's participation and will give rise to an affirmative duty of care.[189]

2. Controlled Steps

Despite the chance of creating some sense of liability and accountability for universities, there are two cost efficient steps that universities can take to reduce student injury. First, campus recreation programs should implement or continue to enforce rules and regulations for clubs. Although this may prove that a university "assumed the duty,"[190] it will also protect students from engaging in situations leading to known dangerous outcomes that could be easily prevented with stricter rules and standards.

Finally, universities should not entirely reject university-sponsored faculty and advisors for clubs or other organizations. These advisors provide guidance and make sports a "learning" experience, all of which helps in student development.[191] Furthermore, advisors could help reduce the chance of injury and lawsuit exposure by keeping an eye on safety measures and proposing safety measures for participants.

Endnotes

1. University of Illinois Campus Recreation Department, University of Illinois Sport Clubs: Campus Recreation Position on Impact of RSO / USO Restructuring / Redefining app (2011) (hereinafter "RSO / USO").
2. Nick White, *Taking One for the Team: Should Colleges be Liable for Injuries Occurring During Student Participation in Club Sports?*, 7 Vand. J. Ent. L. & Prac. 193, 196 (2005).
3. Jennifer L. Spaziano, *It's All Fun and Games until Someone Loses an Eye: An Analysis of University Liability for Actions of Student Organizations*, 22 Pepp. L. Rev. 213, 217 (1994).
4. *Id.* at 219.
5. Sarah K. Fields & Sarah J. Young, *Learning from the Past: An Analysis of Case Law Impacting Campus Recreational Sport Programs*, 20 J. Legal Aspects Sport 75, 75 (2010).
6. *Id.* ("One byproduct of the large numbers of participants and the large sums of money involved in facilities and programs is the risk of lawsuits against the college or university because of some aspect of its campus recreation program. Risk management in campus recreational sport programs has long been a topic of discussion in scholarly journals.").
7. *See* Spaziano, *supra* note 3, at 220.
8. *Id.* at 220-21.
9. *See* RSO / USO, *supra* note 1, at 1-3.
10. Spring J. Walton, *In Loco Parentis for the 1990s: New Liabilities*, 19 Ohio N.U. L. Rev. 247, 247 (1992).
11. *Id.*
12. Robert D. Bickel & Peter F. Lake, The Rights and Responsibilities of the Modern University: Who Assumes the Risk of College Life? 17 (1999) (hereinafter Modern University).
13. *Id.*
14. White, *supra* note 2 at 193.
15. *Id.* at 193-94.
16. Gott v. Berea College, 161 S. W. 204, 206 (Ky. 1913) (emphasis added).
17. *Id.* at 207. ("A person as a citizen has a legal right to marry or to walk the streets at midnight or to board at a public hotel, yet it would be absurd to say that a college cannot forbid its students to do any of these things.").
18. *Id.*
19. Modern University, *supra* note 12 at 23; *see generally Gott*, 161 S. W. 204; Stetson Univ. v. Hunt, 102 So. 637 (Fla. 1924).
20. Edward H. Whang, *Necessary Roughness: Imposing a Heightened Duty of Care on Colleges for Injuries of Student-Athletes*, 2 Sports Law. J. 25, 30 (1995).
21. *Id.*
22. Modern University, *supra* note 12, at 35-36.
23. *Id.* at 36.
24. Whang, *supra* note 20, at 30-31.
25. Dixon v. Alabama State Board of Education, 294 F. 2d. 150 (5th Cir. 1961); *see* Modern University, *supra* note 12, at 8.
26. *Dixon*, 294 F. 2d at 151-52.
27. *Id.* at 158-59.
28. *See* Modern University, *supra* note 12, at 48.
29. *Id.* at 49.
30. *Id.*
31. Walton, *supra* note 9, at 256.
32. Cheryl McDonald Jones, *In Loco Parentis and Higher Education: Together Again?*, 1 Char. L. R. 185, 189-90 (2007).
33. *See id.*; Modern University, *supra* note 12, at 10; *see also* Modern University, *supra* note 12, at 10 n.10 ("A bystander university is like a stranger who has no power or responsibility to step in to "assist" the endangered students. As with a bystander to a serious injury or crime, there is a disquieting sense of forcing someone legally to assist: and an equally disquieting sense of the immorality of those who would just stand by.").
34. Rabel v. Illinois Wesleyan Univ., 514 N.E.2d 552 (Ill. App. Ct. 1987); *see* Modern University, *supra* note 12, at 55.
35. Jones, *supra* note 32, at 190.
36. Modern University, *supra* note 12, at 105.
37. *See e.g.*, Hanson v. Kynast, 494 N.E.2d 1091, 1095 (Ohio 1986) (determining whether an employer-employee agency relationship existed between an intercollegiate lacrosse player and the university).
38. Fields & Young, *supra* note 5, at 77.
39. Avila v. Citrus Cmty. Coll. Dist., 131 P.3d 383, 392 ("Intercollegiate competition allows a school to, on the smallest scale, offer its students the benefits of athletic participation and, on the largest scale, reap the economic and marketing benefits that derive from maintenance of a major sports program. These benefits justify removing a host school from the broad class of those with no connection to a sporting contest and no duty to the participants. In light of those benefits, we hold that in interscholastic and intercollegiate competition, the host school and its agents owe a duty to home and visiting players alike to, at a minimum, not increase the risks inherent in the sport.") (citations omitted).
40. See Whang, *supra* note 20, at 43 (comparing student-athletes and private students and finding that the degree of control that colleges have over student-athletes as opposed to private students is the key to imposing a heightened duty of care for student-athletes). *But see* Kyriazis v. Univ. of W. Va., 450 S.E.2d 649, 652 (W. Va. 1994) ("The difference between intramural programs and sports clubs lies mainly in the degree of control the University exercises over each. Although the Board undertakes no role with the creation, organization, regulation or supervision of club sports, including the Rugby Club, it does actively control intramural programs and reviews them for safety.").
41. Fields & Young, *supra* note 5, at 78-79.
42. *Id.* at 76. This number was determined by using the findings from the Fields & Young source, as well as completing an exhaustive search through legal databases using search terms such as: club sports, intercollegiate, athletics, injury, sport, team, college, university, and liability in nearly all variations.
43. *Id.*
44. *See generally* Fields & Young, *supra* note 5.
45. *See* Whang, *supra* note 20, at 34 (describing the basic principle of tort law that there is no general duty absent a special relationship between the plaintiff and defendant).
46. *See infra* notes 48-49 and accompanying text.
47. James J. Hefferan, Jr., *Taking One for the Team: Davidson v. University of North Carolina and the Duty of Care Owed by Universities to Their Student-Athletes*, 37 Wake Forest L. Rev. 589, 593-94 (2002).

48. See White, *supra* note 2, at 196; *see also* Kleinknecht v. Gettysburg Coll., 989 F.2d 1360, 1368 (3d Cir. 1993).

49. *Kleinknecht*, 989 F.2d at 1368.

50. Davidson v. Univ. of N.C., 543 S.E.2d 920, 922 (N.C. 2001).

51. *Id.* at 927.

52. *Id.*

53. *Id.*

54. *See infra* notes 55-63 and accompanying text.

55. The basketball cheerleading squad was a club and not an intercollegiate varsity sport. Vistad v. Bd. of Regents of Univ. of Minn., No. A04-2161, 2005 WL 1514633, at *1 (Minn. Ct. App. June 28, 2005).

56. *Id.* at *3.

57. *Id.* at *4.

58. *Id.*

59. Univ. of Denver v. Whitlock, 744 P.2d 54 (Colo. 1987); Gonzalez v. Univ. Sys. of N.H., No. 451217, 2005 WL 530806 (Conn. Super. Ct. Jan. 28, 2005).

60. *Whitlock*, 744 P.2d at 55.

61. Hefferhan, *supra* note 47, at 606.

62. *Gonzalez*, 2005 WL 530806, at *13.

63. *Id.* Although this is the court's analysis, it should be noted that the record shows that the injured student did indeed perform during at least two university sporting functions and was required to meet a minimum G.P.A. *See id.* at *4, *12.

64. *Davidson*, 543 S.E.2d at 555-56.

65. *See Gonzalez*, 2005 WL 530806, at *13.

66. *Kleinknecht*, 989 F.2d at 1367.

67. *Id.*

68. *Davidson*, 543 S.E.2d at 555.

69. *Id.*

70. *Gonzalez*, 2005 WL 530806, at *13.

71. *Id.* at 12.

72. *Id. Cf.* Fox v. Bd. of Supervisors of La. State Univ., 576 So.2d 978 (La. 1991) (taking into account the voluntary nature of a club sport and finding it to be one reason the university did not exercise control over the club).

73. Furek v. Univ. of Del., 594 A.2d 506, 515 (Del. 1991).

74. *See* Spaziano, *supra* note 3, at 233.

75. Fisher v. Nw. State Univ., 624 So.2d 1308 (Lo. Ct. App. 1993); *Fox*, 576 So.2d at 978.

76. *Fox*, 576 So.2d at 982.

77. *Id.* at 983.

78. *Fisher*, 624 So.2d at 1311.

79. Kavanagh v. Trs. of Bos. Univ., 795 N.E.2d 1170 (Mass. 2003).

80. *Id.* at 1177-78.

81. Peter F. Lake, *The Special Relationship(s) Between a College and a Student: Law and Policy Ramifications for the Post In Loco Parentis College*, 37 Idaho L. Rev. 531, 531 (2001).

82. Spaziano, *supra* note 3, at 221-22. *But see Avila*, 131 P.3d at 392 ("[T]he host school and its agents owe a duty to home and visiting players alike to, at a minimum, not increase the risks inherent in the sport.").

83. *Id.* at 222.

84. Sullivan v. Quiceno, No. CV054003173S, 2007 WL 3088085, at *4 (Conn. Super. Ct. Oct. 5, 2007).

85. *See* Spaziano, *supra* note 3, at 222.

86. Restatement (Second) of Torts § 324(b) (1989) ("[O]ne who undertakes, gratuitously or for consideration, to render services to another which he should recognize as necessary for the protection of a third person or his things, is subject to liability to the third person for physical harm resulting from his failure to exercise reasonable care to protect his undertaking, if…he has undertaken to perform a duty owed by the other to the third person.").

87. *See* Lake, *supra* note 81, at 535.

88. *See Davidson*, 543 S.E.2d at 929; *see also* Spaziano, *supra* note 3, at 230-31.

89. *Davidson*, 543 S.E.2d at 929.

90. *Id.*

91. *Furek*, 594 A.2d at 514-16.

92. Ochoa v. Cal. State Univ., 72 Cal.App.4th 1300, 1305 (Cal. Ct. App. 1999).

93. Jones, *supra* note 32, at 200 (citation and quotations omitted).

94. *Id.*

95. *See generally* Hefferan, *supra* note 47, at 598-99.

96. Robert D. Bickel & Peter F. Lake, *The Emergence of New Paradigms in Student-University Relations: From "In Loco Parentis" to Bystander to Facilitator*, 23 J.C. & U.L. 755, 763 (1997) (hereinafter *Bystander to Facilitator*) (citation and quotations omitted).

97. Spaziano, *supra* note 3, at 231.

98. *See* Shield v. State, No. 89-CC-2935, 1994 WL 906664 (Ill. Ct. Cl. Aug. 25, 1994) (analyzing a claim brought by a spectator who slipped and fell on a spill on a university athletic arena stairway).

99. Hefferan, *supra* note 47, at 598.

100. Jones, *supra* note 32, at 32.

101. Curtis v. State, 504 N.E.2d 1222 (Ohio Ct. App. 1986).

102. *Id.* at 1223-24.

103. *Id.* at 1225.

104. *See* White, *supra* note 2, at 203.

105. *Hanson*, 494 N.E.2d at 1095.

106. *Id.*

107. *Id.* at 1092.

108. *Hanson*, 494 N.E.2d at 1095.

109. *Id.*

110. *Id.*

111. *Kavanagh*, 795 N.E.2d at 1174-75.

112. *Id.*at 1175. *But see* Rensing v. Ind. State Univ. Bd. of Trs., 437 N.E.2d 78 (Ind. 1982) (finding injuries of a scholarship varsity athlete compensable under an employer-employee relationship).

113. *Fox*, 576 So.2d at 983.

114. White, *supra* note 2, at 206.

115. *Kyriazis*, 450 S.E.2d at 652.

116. *Id.* at 653.

117. *Id.* at 653-54.

118. *Id.* at 655.

119. *Gonzalez*, 2005 WL 530806, at *16.

120. *Id.* at *15.

121. Spaziano, *supra* note 3, at 235-36.

122. White, *supra* note 2, at 206.

123. *Id.* at 207.

124. Spaziano, *supra* note 3, at 236.

125. *Id.* at 237-38.

126. *Id.* at 238.

127. *See* RSO / USO, *supra* note 1, at 2.

128. Spaziano, *supra* note 3, at 239.

129. *See id.* at 238-40.

130. White, *supra* note 2, at 206.

131. Spaziano, *supra* note 3, at 240.

132. *See* White, *supra* note 2, at 206.

133. *See* Spaziano, *supra* note 3, at 243-44.

134. *Id.* at 244.

135. *See* RSO / USO, *supra* note 1, at 2.

136. *Id.* at 2-3.

137. White, *supra* note 2, at 204.

138. *Gonzalez*, 2005 WL 530806, at *21.

139. *See supra*, Part III.C.1.a.

140. *Gonzalez*, 2005 WL 530806, at *23.

141. *Id.*

142. *Id.*

143. *Id.*

144. *Id.*

145. Regan v. State of New York, 237 A.D.2d 851, 853 (N.Y. Ct. App. 1997).

146. *Id.* at 852.

147. *Id.* at 853-54.

148. *Gonzalez*, 2005 WL 530806, at *21.

149. *Id.*

150. Fields & Young, *supra* note 5 at 84.

151. *Avila*, 131 P.3d at 386 (noting that in California, the activity must be "hazardous"); *Cf.* Univ. of Tex. Health Sci. Ctr. v. Garcia, 346 S.W.3d 220, 226 (Tex. App. 2011) (listing out a variety of activities that are considered "recreational"—not all being particularly hazardous).

152. *Avila*, 131 P.3d at 385-86.

153. *Id.* at 390.

154. *Id.*

155. *See Kyriazis*, 450 S.E.2d at 655 ("When a state university provides recreational activities to its students, it fulfills its educational mission, and performs a public service.").

156. *Garcia*, 346 S.W.3d at 226.

157. *Id.* at 222.

158. *Id.* at 226 (quotations omitted).

159. *Id.* at 227.

160. 15 Am. Jur. 2d *Charities* § 183 (2011).

161. *Tort Liability of Religious Organizations*, 7 A.B.A. Bus. L. Sec. No. 6 Ch. 7 (2009), *available at* http://apps.americanbar.org/buslaw/newsletter/0079/materials/pp7.pdf.

162. White, *supra* note 2, at 205.

163. Gilbert v. Seton Hall Univ., 332 F.3d 105, 108 (2d Cir. 2003).

164. *Id.* at 109-12.

165. *Id.*

166. 15 Am. Jur. 2d *Charities* § 183 (2011).

167. *Id.* (citation omitted).

168. A lack of case law in this area makes it unclear as to how a state may vary on whether an injury arising out of a club sport may qualify under governmental immunity as opposed to an injury of an intercollegiate athlete or intramural sport participant.

169. Jeff Kessler, *Dollar Signs on the Muscle… And the Ligaments, Tendon, and Ulnar Nerve: Institutional Liability Arising from Injuries to Student-Athletes*, 3 Va. J. Sports & L. 80, 86 (2001).

170. Harris v. Univ. of Mich. Bd. of Regents, 558 N.W.2d 225, 228 (Mich. Ct. App. 1996).

171. *Id.* at 226-27.

172. *Id.* at 231.

173. *Id.* at 228.

174. *Id.* at 230-31.

175. This notion is supported by the myriad of cases described above, and the fact that none of them were dismissed due to governmental immunity.

176. Rembis v. Bd. of Trs. of Univ. of Ill., 618 N.E.2d 797, 798 (Ill. App. Ct. 1993).

177. *Id.* at 799. The Illinois Constitution abolished governmental immunity, but allowed the state legislature to enact statutes to protect various state entities from liability.

178. *Id.*

179. This question was posed nearly 20 years ago by Pepperdine University Law School student, Jennifer L. Spaziano, in her article analyzing university liability issues related to student organizations. *See* Spaziano, *supra* note 3, at 213.

180. University of Southern California, USC Student Organization Handbook: Advisor Roles and Responsibilities, http://sait.usc.edu/stuorgs/handbook_advisors.shtml (hereinafter "USC Handbook").

181. *See* discussion *supra* Part III.A.

182. *See* discussion *supra* Part III.C.1.b.

183. *Id.*

184. *See* discussion *supra* Part III.C.1.c.

185. *Id.*

186. *Id.*

187. When universities relegate control, courts may use any and all logic to find some way to hold them liable if they believe that the university should be held accountable. *See Gonzalez*, 2005 WL 530806, at *16 (describing how a court used several analyses to reject use of waiver for sports participants as a matter of public policy).

188. *See* discussion *supra* Part III.B.1.a-b. Having such requirements may show that a university is receiving a mutual benefit from the student's participation or that the university is exerting control on the student.

189. *Id.*

190. *See* discussion *supra* Part III.B.2.

191. *See* USC Handbook, *supra* note 180.

Paige Dowdakin is from Rockford, Illinois and is a second-year law student at the University of Illinois College of Law. She received her B.A. in International Studies with a minor in German from the University of Illinois in May 2010. Paige is an Associate Editor for the *Elder Law Journal*, and she is also a participant and executive board member for the International Commercial Arbitration Team, which competes annually in Vienna, Austria. Paige currently serves as the Vice President for the Women's Law Society, is a student representative for the Women's Bar Association of Illinois, and is an EASL member.

Protecting the World's Heritage: Evaluating the Efficacy of the 1954 Hague Convention

By Marcia Zelman

The importance of cultural heritage stretches far beyond the place of origin because artifacts explore the development of humankind and give insight into the genius of our ancestors. Destroying this property, especially during wartime, hurts everyone across national and international boundaries. After the cultural destruction of World War II (WWII), the 1954 *Hague Convention for the Protection of Cultural Property in the Event of Armed Conflict* (the Hague Convention or the Convention) was drafted to prevent the type of looting and destruction as was committed by the Nazis from ever happening again. Sadly, however, it has not been enough to prevent the destruction of priceless works of art and cultural landmarks. One of the most devastating examples is the invasion of Iraq in 2003. The Hague Convention is in no way the only set of international rules relating to cultural heritage, but it is one of the most central guiding principles in the international field. Through an analysis of the terrible events of the 2003 invasion it can be interpreted that the current state of the Hague Convention is not sufficient in terms of prevention, protection and prosecution. By improving several key faults that came to light during the destruction in Iraq, more progress can be made towards stronger and more effective protection for cultural heritage.

The Hague Convention

The Hague Convention built upon earlier conventions and treaties that attempted to protect cultural property.[1] It importantly sets the definition of cultural property as "movable or immovable property of great importance to the cultural heritage of every people."[2] This definition covers a wide range of objects, buildings and other cultural sites. The main responsibilities enacted by the Convention revolve around asking "nations to safeguard and respect cultural property" and for nations to "prepare during peacetime to 'protect it from the foreseeable effects of an armed conflict.'"[3] Thus there are obligations for occupying powers as well as occupied nations to protect this property. The first protocol concerns the "movement and treatment of cultural objects during war and occupation" and establishes the responsibility to prevent exportation or removal during occupation and to arrange for return after conflict.[4] The exception of "military necessity" was also established to allow for the destruction of cultural property when there are no other military alternatives or when the property is being used as a shield for a military purpose.[5] The hope was that these ideals would be incorporated into the wartime training of the signatories and any invading country would treat the protection of cultural property with high importance.

The second protocol was developed in response to the Boylan Report, which evaluated the successes and failures of the Convention after the Balkan war.[6] The protocol more solidly states the times when the military necessity clause can be invoked and more clearly defines the roles of protection an occupying power must take.[7] For example, occupying forces are required to prevent removal or export of cultural property, any archeological excavation unless conducted to protect the objects, and any modification of the property that is "intended to conceal or destroy cultural, historical or scientific evidence."[8] These new qualifications were meant to give more weight and clarity to the Convention in the wake of yet another terrible conflict. These changes eventually convinced the United States to ratify the Convention in 2008, which it had surprisingly not done previously, even though the U.S. was instrumental in the creation of the Convention in 1954.[9] However, as this examination will show, the second protocol, while helpful in terms of adding weight and importance to the Convention, still has not helped to solidify the treaty as a cornerstone of protection and prevention in the international realm.

Cultural Heritage Laws Put to the Test: The 2003 Invasion of Iraq

Mesopotamia, the ancient civilization that existed on the site of present day Iraq, is looked to as the cradle of human development and civilization. Thus so many of the archeological and artistic artifacts that were housed in museums and libraries were pieces of the history of humankind, and not just the history of Iraq. The destruction and looting that took place when American and allied forces invaded the country rightfully sparked international outrage and criticism, and called attention to the need for more stringent protections. Cultural institutions in Baghdad were looted and many were burned, in most cases by civilians. The Iraq Museum, the National Library, the National Archives, and the Religious Library were all looted and each one but the Iraq Museum was burned.[10] The looting of archeological sites, especially those in southern Iraq, did not receive as much media attention, but signified a more severely damaging level of destruction to the understanding of ancient Mesopotamian history.[11] The subsequent actions of establishing military bases on ancient historical sites, such as Babylon, assaulted that history in yet another dramatic way.[12] The construction of helipads and infrastructure irreparably damaged the 2,600-year-old ancient city and its potential archeological finds.[13] Tens of thousands of pieces and artifacts, as well as many records of inventories, were removed or destroyed during this time.[14]

Placing Blame and Reevaluating Current Standards

The Hague Convention is missing several key elements that can make it an effective and powerful international treaty. More attention needs to be paid to its weaknesses before another conflict destroys irreplaceable artifacts and cultural property. By reevaluating the ambiguities, the system of enforcement and the steps for prevention, some progress can be made towards making the Convention a respected and powerful document in the international community.

The Hague Convention was established in order to save works of heritage, but what happens when that heritage is destroyed or looted? Who is to blame? The American military took steps before the invasion to work with archeologists and cultural experts to map out the locations of important cultural sites and objects that needed to be shielded from the invasion.[15] They were careful not to attack any of these locations. However, the U.S. claims that it did not foresee the damage that would occur when the regime of Saddam Hussein fell and the country was plunged into anarchic chaos.[16] The U.S. army, for many reasons, both logical and unexplained, protected Saddam's palaces and the Oil Ministry in an attempt to make the city safer for American troops, and neglected to protect treasures of Iraqi history.[17] After international outrage, the U.S. placed troops outside the looted buildings and sites, but after the damage had already been done.[18]

By taking those early steps to establish the important cultural sites and avoid them at all costs, the U.S. was fulfilling its part as an occupying power under the Hague Convention.[19] The Iraqi museum leaders as well fulfilled their duties and attempted to rescue many of the most important works from their collections and store them safely before the invasion.[20] Although each of these moves was in compliance with the Convention, it became clear in the eyes of the international community that by failing to prevent the looting and destruction, the U.S. was viewed as just as guilty as those who actually committed the illegal acts. [21] It is debated whether or not the U.S. violated any aspect of the treaty, especially with regard to the creation of the military bases, but the question remains: How could this destruction have been prevented?

Many have looked through the Convention and have evaluated the U.S.'s role in the invasion, and come up with many concerns regarding who should be responsible for third party actions during a conflict. A main point of contention regarding this issue stems from the ambiguity of Article 4(3) that "requires the parties to prevent cultural property from being stolen or harmed without any express limitations" on whom the parties must stop from committing these crimes.[22] The term "any" is used, which to some suggests that property must be protected from anyone (not just state actors, but also civilians).[23] This ambiguity illuminates one of the issues of this treaty: in modern times, many that are committing these crimes do so outside of the state authority. The treaty was written to rectify the situation after the Nazi regime systematically destroyed cultural property, but in today's world, actors such as Al Qaeda, the Taliban or even normal civilians, may be carrying out the looting and destruction, as was the case in Iraq. The Convention cannot be so ambiguous in assigning responsibility given the dramatic shift in conflict style that we see today.

Beyond clarifying who is responsible for the protection of cultural property when non-state actors are involved, it is also crucial to define exactly what is required to "safeguard" said property. The treaty states that an occupying power must work with national authorities to protect precious property, but what if those national authorities are incapable of such protection?[24] The role of the occupying power, or any involved power even in a non-occupation setting, should be explained beyond this initial step. Precautions should be taken to protect cultural objects from not just destruction, but also incompetence and inefficiency. Had it been more explicit that the U.S. bore a responsibility beyond mere notification of the locations of cultural importance, and that the responsibility extended to actively working with other organizations to protect said locations, maybe much of this destruction could have been avoided.

One way to make strides towards ensuring the protection of these items is to establish an international force tasked solely with the protection of cultural property during conflicts. Incorporating the ideals of the protection into military training is one of the responsibilities of a signatory party, but clearly this is not enough. If a protection team existed during the invasion, it could have stood watch over cultural sites and advised military forces. A force such as this existed during WWII, and a similar force exists today as part of the Italian Carabinieri that can be deployed in "cases of art theft, fraud, illegal trafficking, and looting of archaeological site[s]."[25] This force would be specially trained to work with governmental and non-governmental organizations to identify and protect property before, during and after any conflicts. Having this force at their disposal would allow armies to concentrate all of their efforts towards efficient military endeavors while knowing that the cultural property of all involved is maintained with the highest regard and safety.[26]

Another issue with the Convention revolves around the lack of accountability or punishment. Sanctions for violations can be put in place, but a more severe response is necessary.[27] "It has little to no success as an enforceable body of law. The weakness stems largely from its reliance on national laws and ad hoc criminal tribunals to prosecute individuals."[28] Since international law is inherently difficult to prosecute due to individual state laws, there should be an international governing body that could hold those responsible for looting or destruction accountable for their actions. Although the 1954 Hague Convention was not mentioned in reference, the creation of the International Criminal Tribunal for the Former Yugoslavia (ICTY), after the crisis in the Balkans, can be looked to as a starting point for such a governing body. The ICTY's treatment of crimes against property as essentially equal to crimes against persons is crucial to understanding the importance of cultural property.[29] Establishing a prosecutorial body would be a fundamental step towards making the Hague Convention more substantial. Had this been put into effect for the international community after the Balkan crisis, it may have served as a deterrent that could have prevented some of the looting in Iraq. The important steps must be taken towards preventing destruction in the first place, but prosecution after the fact is equally as important to deter actors from ruining important markers of cultural heritage.

Conclusion

International conflicts naturally envelop governments and military powers in quagmires of blame. International cultural heritage treaties should be in place to safeguard treasures of the world and prevent warring parties from shifting the blame. The 1954 Hague Convention takes many strides towards offering this protection, but much more needs to be done. The tragedy of the invasion of Iraq made it clear that ambiguity and a lack of care can lead to horrific outcomes and utter destruction of fundamental pieces of history. While no treaty can foresee the outcome of all conflicts, by establishing more stringent punishments, clarifying ambiguities and creating special protection task forces, the Convention can be used more efficiently to protect cultural heritage in the future.

Endnotes

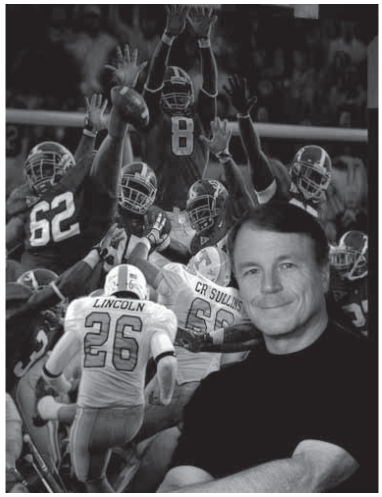
1. Those countries that are signatories of the treaty are expected to abide by its terms and adopt certain practices during peacetime to establish stable records of important national cultural property. Signatories are expected to adopt these ideals into their military preparations and train their soldiers to protect cultural sites and objects. Signatory countries are also expected to establish domestic rules for prosecuting cultural heritage law violations. *See generally*, *Protection of Cultural Property in the Event of Armed Conflict*, UNESCO (Mar. 24, 2011), http://portal.unesco.org/culture/en/ev.php-URL_ID=35261&URL_DO=DO_TOPIC&URL_SECTION=201.html, for further information about the treaty beyond the scope of this article.
2. Patty Gerstenblith, *From Bamiyan to Baghdad: Warfare and the Preservation of Cultural Heritage at the Beginning of the 21st Century*, 37 Geo. J. Int'l L. 245, 685 (2006).
3. Patty Gerstenblith, Art, Cultural Heritage and the Law: Cases and Materials 531 (2d ed. 2008).
4. *Id.* at 532.
5. *Id.*
6. *Id.* at 529.
7. *Id.* at 533.
8. *Id.*
9. *See 1954 Hague Convention*, US Committee of the Blue Shield (Apr. 18, 2010), http://www.uscbs.org/resources.htm. Many have found fault in the fact that the U.S. took so long to ratify the Convention. It gave off the appearance that the Convention did not have that much weight in the international realm. If changes are made and a new protocol is created, the U.S. would do a great service to the Convention by ratifying immediately, proving to other international powers that cultural heritage is immensely important and that all countries must abide by these rules.
10. Gerstenblith, *supra* note 3, at 536.
11. Patty Gerstenblith, *Protecting Cultural Heritage In Armed Conflict: Looking Back, Looking Forward,* 7 Cardozo Pub. L. Pol'y & Ethics J. 677, 692 (2009).
12. *Id.* at 694.
13. Matthew D. Thurlow, *Protecting Cultural Property in Iraq: How American Military Policy Comports with International Law,* 8 Yale Hum. Rts. & Dev. L.J. 153, 181 (2005).
14. *Id.* at 154.
15. *Id.* at 175.
16. *Id.* at 176.
17. *Id.*
18. *Id.* at 178.
19. Thurlow, *supra* note 13, at 179.
20. *Id.* at 178.
21. *Id.* at 179.
22. Elizabeth Varner. *The Art of Armed Conflicts: An Analysis of the United States' Legal Requirements Towards Cultural Property Under the 1954 Hague Convention,* 44 Creighton L. Rev. 1185, 1213 (2011).
23. *Id.*
24. Gerstenblith, *supra* note 2, at 343-45.
25. *Id.* at 294.
26. *Id.* at 345.
27. *Convention for the Protection of Cultural Property in the Event of Armed Conflict*, UNESCO (Mar. 24, 2011), http://portal.unesco.org/culture/en/ev.php-URL_ID=35744&URL_DO=DO_TOPIC&URL_SECTION=201.html.
28. Thurlow, *supra* note 13, at 161.
29. Gerstenblith, *supra* note 2, at 270.

Marcia Zelman is a Summa Cum Laude and Phi Beta Kappa graduate of George Washington University with a B.A. in International Affairs and Art History. She is currently pursuing a Master's Degree in Art Business from the Sotheby's Institute of Art in New York with a special focus in Art Law and plans to attend law school in the future. She would like to extend a special thanks to Prof. Judith Prowda of Sotheby's Institute for her guidance with this research.

Maintaining a Delicate Balance: Trademark Protection for the University of Alabama and Freedom of Expression for New Life Art, Inc.

By Madalyn Darnell

Trademark laws can present challenges for artists. Sports artist Daniel Moore gained renown from painting lifelike scenes of sporting events, including football games from his beloved alma mater, the University of Alabama. His company, New Life Art, Inc., sells limited edition inkjet print versions of these realistically painted scenes for up to $3,000.[1] Moore ended up in a confrontation with the school he claims he intended to glorify in his paintings when he refused to pay licensing fees for using the University's football team uniforms and color scheme in his artistic renderings. According to Moore, the issue is one of "free speech, my right to paint what I want and sell my work."[2] An inherent conflict stems from a "dichotomy of overarching purposes: the purpose of trademark law being to protect consumers from confusion versus the purpose of the First Amendment to protect and encourage the free flow of communication and expression of ideas."[3]



The issues surrounding *University of Alabama Board of Trustees v. New Life Art, Inc.* represent the complex intersection of trademark law and the Freedom of Expression afforded to artists by the First Amendment. In light of both sides appealing the 2009 district court ruling and the June 11th decision by the United States Court of Appeals for the Eleventh Circuit in Atlanta,[4] it is interesting to consider this case, which could set a precedent in the sports art arena. The federal appeals court ruled that Daniel Moore did not violate the University of Alabama's trademark rights, and found that "Moore's painting, prints and calendars very clearly are embodiments of artistic expression, and are entitled to full First Amendment protection."[5] The Eleventh Circuit affirmed part of the lower court ruling concerning the paintings and prints and added the calendars to the category of protected expression. The three-judge panel also reversed the lower court ruling and sent the issue back regarding whether the coffee mugs and other sundries infringed on the University's trademark rights. The district court will determine whether royalties are owed to the University of Alabama for the mugs and other commercial items.

Therefore, although the University has continued to battle for broader trademark protection since the 2009 decision, the Eleventh Circuit stood firm by upholding the part of this ruling allowing Moore to produce his limited edition paintings and prints without having to pay royalties to the University (in addition to adding calendars to this category). This was a victory for Moore. The Eleventh Circuit's determination that further evidence must be presented by the parties to decide how each viewed the artist's use of the University's uniforms on "mundane products"[6] is a necessary action, rather than immediately extending Moore's right to produce commercial items, such as t-shirts and mugs, without obtaining a license from the University. It is essential to continue to maintain the delicate balance between trademark law and First Amendment rights.

This case has an interesting history. After Moore produced his first image in 1979, the University of Alabama, in fact, showed great appreciation for his work. The University even provided him with sideline passes to the games and allowed him to borrow items, such as jerseys and trophies, from the University's Paul W. Bryant Museum to aid him in rendering his realistic paintings.[7] Beginning in 1991, Moore and the University entered into a series of licensing agreements through which the University permitted New Life Art, Inc. to use its school colors and uniforms in his work in exchange for 8% royalty payments.[8] However, in 2000, much to the chagrin of the University, Moore stopped paying royalties. Moore argued that the University did not have the right to license his artistic expression, regardless if he profited from selling his artwork.[9] "There comes a time to fight some things, and I think a constitutional issue is worth fighting for," he said. "A win for the University would hurt a lot of other artists out there who work in a lot of other [mediums], such as photography."[10] However, the University took the position that its uniforms with their signature crimson and white color scheme constituted trade dress on which it had a protectable trademark, and thus could not be portrayed without a license. In 2005, the University of Alabama's Board of Trustees sued Moore and New Life Art, Inc. on the grounds of breach of contract, unfair competition, and trademark infringement.[11] This case centered around the issue: "do defendants infringe on the plaintiff's trademark if they create and sell paintings and prints which include as part of their depictions the uniforms of University of Alabama football players?"[12]

The main purpose of trademark law is to "protect consumers from being deceived or confused as to either the source or origin of the goods and services available to them, or the sponsorship or affiliation of the goods and services of the trademark holder with that of the alleged infringer."[13] Furthermore, trademark law allows for the "protection of consumers enabling them to identify the source of a particular product or service" and "enforcement is vested in the proprietor of the mark."[14] The Federal Trademark Act, or the Lanham Act of 1946, as well as the Trademark Law Revision Act of 1988, dictate the regulation of trademark law today.[15] A trademark is:

> Any word, name, symbol, or device, or any combination thereof used…to identify and distinguish….goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.[16]

"Trade dress," a subset of trademark law that is specifically relevant to this case, refers to "a product's appearance and how it is used as a source identifier or a mark."[17] It "may include features such as size, shape, color or color combinations, texture graphics, or even particular sales technique."[18] The definition and scope of trademark law were considered in this case.

The University argued that Moore and New Life Art, Inc. were liable for infringement under the Lanham Act by selling products with University trade dress "indicia," specifically the University's "distinctive crimson and white colors and football team uniforms."[19] Although the University claimed it had a strong mark, the court ruled that the University's colors and uniforms were not inherently distinctive, but were "somewhat distinctive," considering their acquisition of a secondary meaning in representing the school.[20] This became a significant aspect of the case when the court was deciding whether the strength of the mark overcame the defenses of artistic expression, the First Amendment, and fair use.

The First Amendment, and specifically the freedom of artistic expression it affords, provided protection to Moore's artwork. The court considered the "likelihood of confusion" that could result from Moore's realistic depictions of the University's football games with regard to their source or as to the University's sponsorship of them. The court applied the *Rogers* test, which calls for a balancing with the public interest in cases of source confusion.[21] This test was applied in *ETW Corp. v. JIREH Publishing, Inc.*, when sports artist Rick Rush produced limited edition prints featuring Tiger Woods' image, and was subsequently sued by ETW Corp., the licensing agent of Tiger Woods.[22] In that case, the judge stated, "we agree with the courts that hold that the Lanham Act should be applied to artistic works only where the public interest in avoiding confusion outweighs the public interest in free expression."[23] The court held that the inclusion of Wood's image in Rush's painting *The Masters Of Augusta* bore artistic relevance to the work, without explicitly misleading viewers with regard to the source of the work. As a result, the court found, as in *Rogers*, that while some may incorrectly infer a connection between Woods and Rush's print, society's interest in Rush's artistic expression prevailed over this risk. It therefore prevented the application of the Lanham Act.[24] Likewise, in *University of Alabama Board of Trustees*, the court concluded that the public interest in artistic expression outweighed the possible risk of source confusion. The University's weak mark was thus offset by the First Amendment and artistic expression defenses.

Furthermore, the fair use defense comes into play in Lanham Act cases. A fair use defense is "established if a defendant proves that its use is 1) other than as a mark, 2) in a descriptive sense, and 3) in good faith."[25] In effect, the fair use defense "forbids a trademark registrant to appropriate a descriptive term for [its] exclusive use and so prevent others from accurately describing a characteristic of their goods."[26] The court properly concluded that this defense was applicable to Moore's artwork, which further safeguards Moore's use of the University's uniforms and colors against claims of trademark infringement. In sum, although the court found "a weak mark and some likelihood of confusion," these aspects do not prevail over the Artistic Expression, First Amendment, and Fair Use defenses when balanced with the public interest in Moore's fine art.[27] Therefore, Moore's artistic depictions of Alabama football games do not constitute an infringement on the University of Alabama's trademark and he is entitled to produce his fine art.

However, these defenses are only applicable to Moore's fine art productions, as their "artistic nature" is what ultimately allows for First Amendment protection.[28] While the Eleventh Circuit has now extended his production rights to calendars, when the case is sent back to the district court, the lower court should continue to limit the scope of Moore's image production as it extends beyond the fine art realm, as this would infringe on the University's trade dress mark.[29] For example, if Moore produced such University-related merchandise, it would undoubtedly stand in competition to licensed University of Alabama products sold in the University bookstore. This is supported by the Fifth Circuit Court's decision in *Board of Supervisors for Louisiana State University Agricultural and Mechanical College, et al. v. Smack Apparel Co.* Louisiana State University, as well as the University of Oklahoma, Ohio State University, and the University of Southern California, alleged that Smack Apparel Company's t-shirts bearing their color schemes and other identifiable symbols of the universities represented trademark infringement.[30] While the shirts did not directly use the universities' names or logos, they made clear reference to the respective schools. Although Smack Apparel's website claimed that it was "licensed only by the First Amendment," the First Amendment defense does not apply to such non-artistic merchandise.[31] These unlicensed products would create likelihood of confusion among consumers that is not overcome by the First Amendment, Artistic Expression, and Fair Use defenses, and they would stand in competition to the universities' own officially licensed products. The Eastern District of Louisiana agreed with the universities' position, ruling that Smack's use of the color schemes and other indicia constituted trademark infringement.[32] Fine art is different than other produced merchandise, and therefore Moore should not have to pay a licensing fee for his artistic productions. However, further production of commercially mundane items would, like Smack Apparel's t-shirts, infringe on the University's trademark.

What does the future hold for these intersecting issues of trademark protection and First Amendment rights? This may always remain problematic. Yet in looking at the recent court decision, it is important to recognize the implications of altering further components of the 2009 decision. It is clear that the 2009 district court's ruling effectively complies with the established principles of trademark law, while also protecting the Freedom of Expression afforded to artists by the First Amendment. The Court of Appeals' conclusion that Moore does not have to pay licensing fees on his paintings, prints, and now even calendars, represents a victory for artists. However, if a further extension of Moore's right to produce other types of University of Alabama-related commercial products without a license is granted, it could provide greater commercial freedom for companies producing unlicensed merchandise and therefore hurt universities like Alabama. It is thus necessary to protect artists' rights to freely create artwork, while simultaneously preventing continued unlicensed infringement on the commercial interests of universities.

Endnotes

1. Daniel Grant, *Free Speech v. Infringement in Suit on Alabama Artwork*, N.Y. Times, Jan. 31, 2012, at B12.
2. *Id.*
3. John Grady & Steve McKelvey, *Trademark Protection of School Colors: Smack Apparel and Sinks Decisions Trigger Color-ful Legal Debate for the Collegiate Licensing Industry*, 18 J. Legal Aspects of Sport 207, 216 (2008).
4. The University of Alabama v. New Life Art Inc. et al., U.S. Court of Appeals for the 11th Circuit, No 10-10092.
5. *Id.*
6. *Id.*
7. Grant, *supra* note 1, at B12.
8. Univ. of Ala. Bd. of Trs., *supra* note 4, at 1244.
9. Daniel Moore, *University Cannot License Free Expression*, The Crimson White, Feb. 20, 2012, at http://cw.ua.edu/2012/02/20/university-cannot-license-free-expression/.
10. William Evans, *Moore's Painting, Legal Battle Continues*, The Crimson White, Feb. 2, 2012, at http://cw.ua.edu/2012/02/02/moores-painting-legal-battle-continues.
11. Univ. of Ala. Bd. of Trs., *supra* note 4, at 1245.
12. *Id.* at 1244.
13. Grady, *supra* note 3, at 211.
14. Leonard D. DuBoff, Sherri Burr, & Michael D. Murray, Art Law Cases and Materials 128 (Aspen Publishers, rev. ed, 2010).
15. *Id.* at 127.
16. *Id.* at 128.
17. Kristen E. Knauf, *Shades of Gray: The Functionality Doctrine and Why Trademark Protection Should Not Be Extended to University Color Schemes*, 21 Marq. Sports L. Rev. 361, 364 (2010).
18. *See* Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 765 (1992).
19. Univ. of Ala. Bd. of Trs., *supra* note 4, at 1246.
20. *Id.* at 1240.
21. *See* Rogers v. Grimaldi, 875 F.2d 994, 999 (2d. Cir. 1980): landmark case shows significance of balancing with the First Amendment in Lanham Act cases.
22. *See* ETW Corp. v. JIREH Publishing, Inc., 332 F.3d 915, 937 (6th Cir. 2003).
23. *Id.*
24. *Id.*
25. *See* International Stamp Art, Inc. v. U.S. Postal Service, 465 F.3d 1270, 1274 (11th Cir. 2006): established "Fair Use defense" in Lanham Act cases.
26. *See* Soweco, Inc. v. Shell Oil Co., 617 D.2d 1178, 1185 (5th Cir. 1980).
27. Univ. of Ala. Bd. of Trs., *supra* note 4, at 1242.
28. Joshua Saltzman, Smack Apparel, *College Color Schemes and the Muddying of Trademark Law*, 76 Brooklyn L. Rev. 1635, 1664 (2011).
29. Univ. of Ala. Bd. of Trs., *supra* note 4, at 1239.
30. *See* Board of Supervisors for Louisiana State University Agricultural and Mechanical College, et al. v. Smack Apparel Co., 438 F. Supp. 2d 653, 655 (E.D. La. 2006).
31. Saltzman, *supra* note 28, at 1636.
32. *Id.*

Madalyn Darnell is completing her Master's Degree in Art and Museum Studies from Georgetown University. As part of this program, she spent the spring semester at Sotheby's Institute of Art in New York City, in the Contemporary Art M.A. Program. She holds a B.A. in Visual Perception and Culture, magna cum laude, from the College Scholar Program of the Cornell University College of Arts and Sciences (2011) and has worked at art institutions in Washington, D.C. and New York.

Graffiti: A Stolen Art? A Glance at Graffiti Ownership

By Lindsey A. Lovern

Introduction

Over the past decade, the practice of graffiti has grown exponentially.[1] Artists, most notably the elusive Banksy, have brought the art into a more saleable state. As a result, this already controversial art form has brought with it a slew of legal issues, apart from the questionable legality of the creation itself. Such issues include the conflict between the interests of the person or company on whose property the graffiti was placed without permission, and the rights granted in federal law to visual artists. One such dispute occurred in Detroit, when gallery members reportedly removed a wall of an abandoned factory in order to "salvage" a work by Banksy. Using this lawsuit as a springboard, this article delves into ownership rights related to graffiti works. Additionally, it raises the question of whether the removal of graffiti by a third party is salvaging or stealing.

The Growth of the Graffiti Market: A Road to Commoditization

In order to understand the rising concern of law related to the act of graffiti, one must be aware of the changing social climate surrounding this type of expression. Graffiti is often presented dichotomously—as a symbol of social decline or as an urban fixture of artistic expression.[2] In turn, the creator is either pitted as a vandal or an artist, with motivation being the sole distinction.[3] In past decades the title "vandal" was used most liberally; however, since the 1990s the creator as "artist" has gained headway. Subsequently, many have begun to celebrate artistic elements of works despite an anti-graffiti history, which is still present in state and city laws. New York City, for example, not only condemns the creation of such works, but also restricts sales, display, and possession of supplies directly related to graffiti, aerosol cans and broad tipped markers included.[4] Arguably, such restrictions stand opposed to some artists' First Amendment rights, but that discussion does not fall within the scope of this article.

Although the anti-graffiti sentiment remains strong, a shift towards acceptance is occurring, particularly with regard to artists of stature.[5] In 2006, for instance, Brad Pitt and Angelina Jolie reportedly paid $1 million for Banksy works. Additionally, Steve Lazarides, a specialty dealer, held a Banksy pop-up show that sold $3.2 million worth of work in two hours.[6] On a larger scale, San Paolo hosted the first biennial of graffiti in 2009 and the Los Angeles Museum of Contemporary Art held the first U.S. museum exhibition in 2011.[7] Such events highlight the changing market of graffiti art, which sets the stage for abounding legal issues.

Detroit: Tearing Down the Wall

As previously noted, the trajectory of the graffiti market is currently rising and simultaneously bringing forth legal uncertainties. The description of a recent lawsuit in Detroit, Michigan will help contextualize the later discussion of ownership rights of graffiti.

In 2010, London street artist Banksy projected his social commentary on Detroit by way of an unsanctioned graffiti mural. Banksy, although his identity remains unknown, is one of the most acclaimed street artists, suggesting he is an artist of stature. The mural, known as *Trees*, depicts a young boy holding a paint can and brush. Beside him are scribbled the words: "I remember when all this was trees." The appearance of graffiti is nothing unusual in Detroit—an area unfortunately known for its derelict urban landscape. It was the actions of artists associated with the 555 Nonprofit Gallery and Studios that spurred legal debates.

Shortly after discovery of the image, members of this nonprofit carefully removed the 7-by-8 foot, 1,500-pound section of wall from the site and relocated it to their gallery. The removal and relocation, referred to as "a guerilla act on top of Banksy's initial guerilla act," has ignited debate about graffiti's ownership, preservation, and value.[8]

555 Gallery claims that its motive was not one of profit, but rather of preservation:

> It's about preservation for us. We're watching his beautiful city crumble around us and we can't do anything to stop it. So with this fine art piece—and it's not just everyday graffiti that you might whiz by—here was our opportunity to do something. It would have been destroyed if we didn't make the effort.[9]

Despite the intentions of the 12-man, two-day operation and the neglected landscape that surrounded the work, is it the gallery's responsibility to protect a work especially when it has no claim to the property? In fact, some are quite critical of 555 Gallery's actions, stating that graffiti art is intended to be temporary and its meaning is fixed in the original location. Thus, removing the work destroys, rather than saves, it.[10]

As news spread, the building owner, Biosource Inc., sued in Wayne County Circuit Court arguing that it was the owner and the work was worth in excess of $100,000.[11] A settlement was eventually reached.

Issues of Graffiti Ownership: Real Property

This lawsuit acts as a springboard from which one can dive into areas of law rarely before pitted against each other. Ownership is one such area that leads to much confusion. Whether or not a work is sanctioned plays a very important role in determining the protection of the piece.

Usually, unsanctioned graffiti works are considered owned by the property owner *de facto*.[12] However, does owning the wall necessarily mean owning the work? Such an outcome suggests that one party, in this case the property owner, has all ownership rights. In reality, it must be understood that there are two items that may be owned when it comes to unsanctioned graffiti art: the wall (or other "canvas") and the image.

On one hand, property rights were set in place to protect some of the most fundamental assets a person may own. Under the Visual Artists Rights Act, one may claim that it is unfair to an artist if his or her work is removed, displayed, destroyed or distributed by third parties without his or her express permission.[13] Under normal circumstances this is certainly true, but unsanctioned graffiti art is very unique in part because it is fused with the property of others, but also because very few graffiti artists will authenticate their works.[14] Nonetheless, property law doctrine suggests that artists "probably have few rights to their *unauthorized* works," thus removing them from control of sales or display.[15] In fact, most unsanctioned works become the property of the building or structure owner *de facto*, thereby giving them the rights to consign the work.

Overall, it seems fair that (in a black and white world) when pitted against one another, property owners' rights should eclipse those of others. Property ownership is a fundamental right of any U.S. citizen and to jeopardize that by tagging a wall seems overreaching. In the case of Detroit, Biosource (provided it proves legitimate ownership) should therefore claim ownership to Banksy's physical work. 555 Gallery's noble intentions may be countered by the inherent qualities of graffiti art: temporality and site-specificity. As Banksy stated in his own documentary: "Most normal art is built to last, like, hundreds of years. It's cast in bronze. Or it's oil on canvas. But street art has a short life span."[16]

Ownership: Copyright

Despite this, there is an argument to be made on behalf of the artist. Understandably, the wall will remain property of the building owner, but what about the image itself? Although the image is apparently inseparable from its canvas, does this mean that the artist has no ownership of his design? Under the Copyright Act, 17 U.S.C. §§ 1 et seq., graffiti arguably is protected:

> Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.[17]

Additionally, copyright depends on whether or not the work may be included in a preset categorization of subject matter.[18] Looking at the three requirements of copyright—originality, fixation, and subject matter—graffiti seems to be afforded protection. In terms of originality, graffiti, especially that of artists of stature, clearly shows sparks of creativity and aesthetic projection. It is also fixed in a tangible medium. Finally, graffiti would be protected, as it falls into the category of "pictorial, graphic, and sculptural works."[19]

It is important to note that this ownership of copyright is very different from ownership of the physical embodiment. Copyright, in short, protects the intangible aspects of the work—the idea and "bundle of rights."[20] In the 2002 case *Villa v. Brady Publishing*, graffiti was acknowledged as copyrightable.[21] Additionally, ownership of the copyright lies with the artist under normal circumstances.[22] "Mere ownership…does not give the possessor the copyright. The law provides that transfer of ownership of any material object that embodies a protected work does not of itself convey any rights of the copyright."[23]

As can be seen, the Copyright Act does not explicitly state that illegal conduct in the creation of art excludes it from protection. Danwill Schwender, however, brings to light that "the courts have allowed defendants to raise illegal conduct as an unclean hands defense in cases of copyright infringement."[24] The 2003 case *Villa v. Pearson Education* supplements this idea. The court stated that the copyright claim "would require a determination of the legality of the circumstance under which the mural was created."[25] This suggests that despite meeting the fundamental values of copyright, the illegality of its creation excludes it from full protection.

A Remedy?

Taking into consideration the public's majority view of graffiti as a social blight, property owners' rights, and artists' rights, is there a way copyright can be retrofitted to accommodate all interested parties? In Schwender's article, he suggests that an amendment to the Copyright Act could provide some protection to works and not infringe upon the property owner's rights.[26] In short, he believes that illegal graffiti artists should be able to reproduce their works, distribute derivatives and copies, display them publicly, claim authorship, and reserve the right to deny authorship of an altered work.[27] Artists, however, do not have the right to prevent modification or destruction of their illegal works.[28] This change would allow artists to gain recognition and reap monetary reward if the work is used by others (as in the sale of books).

This idea, of course, is not free of complications. One of the largest being the fact that many artists will not claim copyright, purely because their acts may include illegal activity, such as trespassing, and the potential for loss would outweigh reward. Nonetheless, it is obvious that neither the "canvas" owner nor the artist should hold complete ownership. The image and the embodiment are separate entities governed by property doctrine and copyright, respectively.

Salvaging or Stealing?

When applying these ideas to the Detroit lawsuit over Banksy's *Trees*, it is evident that graffiti art may indeed be stolen. 555 Gallery, at the very least, acted against real property doctrine when taking the wall without permission from a representative of Biosource, Inc.

Despite this, one must consider the ethics behind the removal. The Banksy work was found amongst detritus in the dilapidated and abandoned Packard Plant, a site which is often scavenged for scrap metal. Given this landscape, it is evident that the work would be destroyed, manipulated, or tagged eventually. 555 Gallery claimed that it acted in order to preserve the work from its inevitable fate.

Art historians and artists alike would often condone such actions. However, the meaning and value of graffiti is based in its temporality and site-specificity. Many graffiti artists themselves believe that works should be left *in situ*. Ben Eine, a street artist and collaborator of Banksy, states, "the street work we do is not painted to be sold a few years later...it's not made to be sold, but to be enjoyed."[29] For this reason, it can be argued that the work's value stems from its original context and removing it depreciates any meaning whether monetary or aesthetic.

Conclusion

As noted previously, graffiti art is subject to a variety of legal topics—ownership being of critical concern. While the art world, in general, trends toward commoditization, views of street art are also changing. There still remain fierce proponents and opponents of the art form, but in general graffiti is slowly being viewed in more artistic terms. While graffiti once was considered an urban blight, now towns such as Stonnington, Australia are calling for the creation of a street art register to prevent destruction of significant works.[30] Additionally, graffiti has recently become "a way to revive the art scene, not wipe it out."[31] This change in perception requires modification of current legal precedence.

There is no doubt that rights of real property owners must be protected, but rights of the artist must also be considered. While graffiti artists traditionally do not create art to be sold, neither do they create art to be stolen or reproduced for profit by an outside party. It is not, however, only the artist that must be protected, but also the art form and the public it reaches. Art, in the past decades, has reached its most extreme limits and continues to defy traditional materials, methods, and subject matter. Given this trajectory, it is expected that street art will not soon be quelled and protection must be afforded. As Justice Potter Stewart states, "the immediate effect of our copyright law is to secure a fair return for an 'author's' creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good."[32] For this reason, laws must be retrofitted to accommodate both the real property owners and artists alike.

Endnotes

1. Graffito (PL. Graffiti) Writing or drawings scribbled, scratched or sprayed illicitly on a wall or other surface in a public area. New Oxford American Dictionary, Third Edition, 753, (2010).
2. Marisa A. Gomez, *The Writing on Our Walls: Finding Solutions through Distinguishing Graffiti Art from Graffiti Vandalism* , 26 U. Mich. J.L. Ref 633, 634 (1993).
3. *Id.* at 649. According to Gomez, the distinction is made based on whether the graffiti was created for the "thrill of breaking the law or for the joy of artistic expression." In this author's opinion, this distinction is not so clear cut, as many graffiti artists seem to use legal disobedience in an effort to speak to the artistic expression. However, for simplicity's sake, it does appear the artists of stature are those that find joy in the artistic expression.
4. New York City Graffiti Laws § 10-117 define city law pertaining to "Defacement of property, possession, sale and display of aerosol spray paint cans, [and] broad tipped markers and etching acid prohibited in certain circumstances."
5. According to Carter v. Helmsley-Spear, Inc., 861 F Supp. 303, 325 (S.D.N.Y 1994), stature is generally viewed as meritorious and "recognized by art experts, other members of the artistic community, or by some cross-section of society."
6. Anny Shaw, *Banksy Murals Prove to be an Attribution Minefield*, The Art Newspaper, Feb 16, 2012, at http://www.theartnewspaper.com/articles/Banksy-murals-prove-to-be-a-minefield/25631.
7. The Tate Modern held an exhibition in 2008, but the graffiti work was kept outside.
8. Carl W. Goines quoted in Mark Stryker, *Graffiti artist Banksy leaves mark on Detroit and ignites firestorm*, The Detroit Free Press, May 15, 2010, available at http://www.freep.com/article/20100515/ENT05/100514077/Graffiti-artist-Banksy-leaves-mark-Detroit-ignites-firestorm.
9. *Id.*
10. Matthew Dolan, *If You Take Street Art Off the Street, Is It Still Art?* The Wall Street Journal, March 9, 2011, available at http://online.wsj.com/article/SB10001424052748704071304576160544164062176.html?KEYWORDS=banksy.
11. *Id.*
12. Shaw, *supra*, note 6.

13. Visual Artists Rights Act of 1990, 17 U.S.C. § 106A (2000).

14. Banksy, for instance, does not sign his work. In fact, once a work is created he has little interaction with it, if any. Banksy.co.uk, however, serves as a comprehensive listing of works created by Banksy. It is often consulted to confirm attribution.

15. Parker Howell, *Selling the Writing on the Wall: Does Copyright Protect the Work of Graffiti Artist?* Law, Technology & Arts Blog, May 12, 2011, at http://wjlta.wordpress.com/2011/05/12/selling-the-writing-on-the-wall-does-copyright-protect-the-work-of-graffiti-artists/.

16. Banksy, Exit Through the Gift Shop (Oscilloscope Laboratories 2010).

17. 17 U.S.C. § 102(a).

18. *Id.*

19. *Id.*

20. 17 U.S.C. § 106(1-5). The "Bundle of Rights" include the following: the right to reproduce, to create adaptations, to distribute, to perform, to display publicly, and to perform by means of digital audio transmission.

21. Villa v. Brady Publishing, 2002 WL 1400345 (N.D. Ill. June 27, 2002).

22. Stacie Sandifer, *Unauthorized and Unsolicited: Is Graffiti Copyrightable Visual Communication*?, 12 J.F.K. U.L. Rev. 147, 147 (2009).

23. U.S. Copyright Office, *Circular 1, Copyright Basics* (2008), at http://www.copyright.gov/circs/circ1.pdf.

24. Danwill Schwender, *Promotion of the Arts: An Argument for Limited Copyright Protection of Illegal Graffiti*, 55 J. Copyright Soc'y USA 257 (2007-2008), available at http://heinonline.org.

25. Villa v. Pearson Educ., Inc., 2003 U.S. Dist. LEXIS 24686, at * 6 (N.D. Ill. 2003).

26. Schwender, *supra* note 24, at 277.

27. *Id.*

28. *Id.*

29. Shaw, *supra* note 6.

30. Nicole Haddow, *Banksy Loss Prompts Traders to Plead 'Save our Art,'* Melbourne Weekly, May 21, 2012, at http://www.melbourne-weekly.com.au/news/local/news/general/banksy-loss-prompts-traders-to-plead-save-our-art/2563209.aspx.

31. *Id.*

32. Twentieth Century Music Corp. v. Aiken, 422 US 151, 156, 45 L. Ed. 2d 84, 95 S Ct 2040, at *156 (1975).

Lindsey Lovern graduated magna cum laude from Vanderbilt University in 2009 with a BA in Art History and Sociology. During the following two years, Ms. Lovern worked in marketing and administration for Collins Engineers, Inc. in Charleston, SC. She is currently a Master's Candidate in Art Business at Sotheby's Institute with a particular interest in Art Law and Collections Management.

Finally, It Is Racetrack Management That Is Shown the Door!

By Chris E. Wittstruck

Patrons at privately owned sports venues inure to the benefit of nothing more than a revocable license.[1] Irrespective of the purchase of admission, and with the exception of instances of arrant discrimination,[2] patronage is at the complete whim and caprice of the facility operator. Sitting quietly and respectfully at a baseball game provides no guarantee that the attendee will be permitted to remain throughout the complete nine innings or to return for a later game.[3]

Nowhere is the issue of exclusion more prevalent than at horse racing venues. The common law right of private racetrack operators to prevent entry to those considered undesirable was affirmed by the United States Supreme Court a century ago.[4] No reason need be given for the barring of the individual, and thus no hearing by the operator is required. Inasmuch as an admission ticket does not act as an instrument of conveyance, the holder has no right to specific performance. The only remedy available is a plenary action for breach of contract.[5]

New York strictly adheres to the common law rule. In the 1940s, a private racing association sought to exclude a notorious bookmaker with organized crime ties named Madden from the grounds of the old Aqueduct Racetrack. While the association excluded a gentleman named Madden, it mistakenly barred the wrong individual. When the "good" Madden sought to have the exclusion judicially reversed, the Court of Appeals held that he was not entitled to such relief either at common law or pursuant to New York's Civil Rights Law.[6]

Exclusion of a mere patron is one thing. What issues arise, however, when the private racetrack operator seeks to exclude an individual possessing a state-issued occupational license from plying his or her trade at the facility? Despite the fact that horse trainers, jockeys and harness drivers possess a recognized property interest in their licenses sufficient to invoke the protection of the Due Process Clause in the event of suspension or revocation by the state,[7] the right to a hearing on exclusion by private actors has almost never been judicially embraced.[8]

The exclusion by private racetracks of racing licensees is presumed to be within the operators' reasonable discretionary business judgment relating to the best interests of racing generally, hence negating the right to a hearing.[9] It is thus not surprising that racetrack exclusion targets often argue that the racetrack is engaging in some form or color of state action.[10] The arguments have traditionally been unsuccessful.

Absent a concession on behalf of the actor as to its engagement in state action,[11] courts have consistently rejected the premise that private racetracks are state facilities in disguise simply because the state heavily regulates the premises[12] or actually owns the racetrack grounds managed by a private operator.[13] Even the argument that the state derives substantial revenue from the video lottery terminals installed at a racing facility was rejected as an instance of state action by a federal appeals court sitting *en banc*.[14]

In November 2011, however, the unfettered common law right to non-reviewable licensee exclusions came to an abrupt end in West Virginia.

In recognition of the property interest horsemen possess in their occupational licenses, that state had previously promulgated a rule that permitted ejected license holders the right to appeal their ejections to the commission.[15] When it was suspected that a group of jockeys conspired with the clerk of scales to misrepresent their riding weights, an investigation led to fines and 30-day suspensions issued by the stewards. Upon that adjudication by the stewards acting as the Racing Commission's agents, the racing association took its own action and ejected the jockeys from its facility. The jockeys availed themselves of their right to appeal the private property holder's action to the Racing Commission. Judicial stays of the racing association's exclusions were granted, and the matter eventually made its way to the West Virginia Supreme Court of Appeals.

In its briefs, the Racing Commission sided with the jockeys and framed the issue before the court as, "…who ultimately controls thoroughbred racing in the State of West Virginia—the Racing Commission or the racetracks that are licensed by the Commission to conduct racing and pari-mutuel wagering?"[16]

In response to the claim by the private association that it possessed a common law right to exclude individuals based upon its discretionary business judgment, the Commission held little back:

> Who gets to race is at the core of the Commission's regulatory function. In reviewing ejectment appeals from its permit holders, the Racing Commission is not deciding whether the track serves filet mignon or prime rib in the dining room or whether it hires a particular accounting firm to do its books. Matters like these may be the internal business affairs of the track. But, whether someone who holds a permit gets to come on to

> the track to ride horses is, fundamentally, the Racing Commission's business.[17]

The Commission also pointed out that, inasmuch as West Virginia has only two thoroughbred tracks, the exclusions of the jockeys from one of them was tantamount to license revocation.[18]

On November 18, 2011, the Supreme Court of Appeals of West Virginia, in a 3-2 decision sided with the jockeys and the Racing Commission.[19] After extrapolating regarding the broad power, authority and responsibility of the Commission to conduct racing, the court noted that, "In providing for an administrative review of the decision to eject, the Legislature has placed the ultimate decision, subject to judicial review, of whether the permit holder should be ejected with the Racing Commission."[20]

In the wake of the decision, the Racing Commission immediately set in motion the promulgation of procedural rules in supplement of their existing regulation. The new rules permit the Commission to reject appeals of exclusions and issue stays of their enforcement in only the most extraordinary of circumstances.[21]

In its briefs to the court in the case, the Racing Commission also pointed out:

> Having a permit to engage in a racing-related occupation is not the same as having a law license or a medical license or a license to practice dentistry. A lawyer or a doctor or a dentist can open a professional practice on any street comer in the State… They are not dependent upon the good graces of another to engage in their trades. Those engaging in racing occupations, however, can only ride, own and / or train thoroughbreds in a race for a purse on a racetrack licensed by the State of West Virginia.[22]

Taking the point further, if a lawyer or doctor is suspended for a period of time by a licensing authority, he or she can immediately begin to recommence practice in his or her profession upon administrative reinstatement. If a Racing Commission regards a violation as warranting no more than a 30-day jockey suspension, why should a racetrack be able to take an action tantamount to a lifetime revocation? While the close West Virginia decision admittedly turned upon the existence of a Commission regulation permitting the appeal, it is hoped that the reasoning supporting both the appeal rule and the decision will be adopted by racing boards and commissions throughout the country.

Endnotes

1. *See, e.g.*, People v. Licata, 28 N.Y.2d 113 (1971).
2. *See*, N.Y. (CONFIRM THIS IS CORRECT) Civil Rights Law § 40.
3. N.Y. Civil Rights Law § 40-B prohibits wrongful refusal of admission to and ejection from places of public entertainment and amusement. Those venues, however, are expressly limited to "legitimate theatres, burlesque theatres, music halls, opera houses, concert halls and circuses."
4. Marrone v. Washington Jockey Club, 227 U.S. 633 (1913).
5. *Id.* at 636 (Holmes, J.).
6. Madden v. Queens County Jockey Club, 296 N.Y. 249 (1947); N.Y. Civil Rights Law § 40-B.
7. Barry v. Barchi, 443 U.S. 55, 64 (1979).
8. While the denial of stall space at a racetrack has been considered to be reviewable, the circumstances involved a finding that the actor conducted Thoroughbred racing in New York under a virtual monopoly, thus rendering exclusion tantamount to license revocation and, in any event, involved a plenary action for damages. *See*, Jacobson v. New York Racing Association, 33 N.Y.2d 144 (1973).
9. *Id.* at 150.
10. *See generally*, Burton v. Wilmington Parking Authority, 365 U.S. 715 (1961).
11. *See* Saumell v. New York Racing Association, 58 N.Y.2d 231(1983).
12. Martin v. Monmouth Park Jockey Club, 145 F.Supp 439 (1956), *aff'd*, 242 F.2d 344 (3rd Circuit 1957).
13. Pena v. New Meadowlands Racetrack LLC, No 12-2 (SRC), January 10, 2012 (District Court of N.J., Jan. 10, 2012).
14. Crissman v. Dover Downs Entertainment, 289 F.3d 231 (3rd Cir. 2002).
15. 178 W. Va. C.S.R. 1, § 4.7 stating, "Any person ejected by the stewards or the association from the grounds of an association shall be denied admission to the grounds until permission for his or her reentry has been obtained from the association and the Racing Commission. However, all occupational permit holders who are ejected have the right of appeal to the Racing Commission."
16. Supplemental Response Brief of the West Virginia Racing Commission at 2, PNGI Charles Town Gaming, LLC v. Reynolds, No 101503 (Sup. Ct of App. W. Va.), *available at* http://www.state.wv.us/wvsca/briefs/sept11/101503supplemental-response.pdf.
17. *Id.* at 7.
18. *Id.* at 2, 8.
19. PNGI Charles Town Gaming, LLC v. Reynolds, No. 101503 (Sup. Ct of App. W. Va., Nov. 18, 2011).
20. *Id.*
21. Tom LaMarra, *WV Panel OKs Rules Allowing Exclusion Appeals,* The Bloodhorse Magazine Online (Feb. 28, 2012), *at* http://www.bloodhorse.com/horse-racing/articles/67687/wv-panel-oks-rules-allowing-exclusion-appeals.
22. Supplemental Response Brief of the West Virginia Racing Commission, *supra* note 16, at 7.

Chris E. Wittstruck, Esq. practices in the area of equine racing law and is a director of the Standardbred Owners Association of New York, representing the over 1,000 owners, trainers and drivers who regularly compete at Yonkers Raceway, New York. A member of the United States Harness Writers Association, Mr. Wittstruck pens the "Racing and the Law" column for the United States Trotting Association.

Krell's Korner

Krell's Korner is a column about the people, events, and deals that shape the entertainment, arts, and sports industries.

Oh Copyright, My Copyright: The Story of *Wheaton v. Peters*

By David Krell

If one is inclined to follow Mark Twain's philosophy, copyright law is a cipher that even a divine power cannot decode—"Only one thing is impossible for God: to find any sense in any copyright law on the planet."[1]

What a deity shrugs, however, man must confront. *Fiat justitia*.

In the palace of justice known as the United States Supreme Court, *Wheaton v. Peters*[2] in 1834 presented the first opportunity for the highest members of America's judiciary to find the sense that Twain eloquently mourned with his wit. Hell hath no fury like a writer scorned. Especially a humorist.

Wheaton v. Peters, an American reflection of England's *Donaldson v. Beckett*,[3] revolved around whether a Supreme Court reporter held a common law copyright to his reports of the Court's decisions.[4] It was the last case for Chief Justice John Marshall, the custodian of the early days of the American judiciary.[5]

Wheaton is a cornerstone of the development of copyright law, a landmark decision on par with *Marbury v. Madison*[6] for the concept of judicial review, or *Gibbons v. Ogden*[7] for interstate navigation regulation. It forced the court to explain the viability of copyright protection and, consequently, the source of it.

Henry Wheaton

Henry Wheaton was the Court's reporter from 1816 to 1827. To say that Wheaton enjoyed a well-rounded professional pedigree before working for the highest court in the land is an understatement. Not only a lawyer, Wheaton made his mark in the journalism world with the *National Advocate* newspaper. It was the Democratic Party's response to a climate where journalists might not succumb to political pressure.[8]

> Organs of political parties had to be changed. There would be differences of opinion among leaders difficult to reconcile, and new organs were necessary to meet the emergency and satisfy contending factions. Sometimes an editor would feel less like submitting to party dictation, and would rebel. Often there would be more office-seekers than offices. This would lead to heart-burnings, and jealousies, and troubles of all kinds. Newspapers were an outlet to these personal grievances.[9]

The *National Advocate* began in 1813. Wheaton was its first editor. He brought a diversity of experience that provided the foundation for critical thinking, a cornerstone of the reporter position in the United States Supreme Court.[10]

> Wheaton was a native of Rhode Island, and educated a lawyer. After he graduated he visited Europe, where he remained from 1802 to 1806, in the midst and height of Napoleon's career, a close student of the important events of that eventful period. On his return he commenced the practice of law in Providence, which he abandoned in 1812, to remove to New York. In 1813 he established himself in that city as the editor of the *National Advocate*. 'In this capacity,' said Edward Everett, 'he proved himself an able and enlightened champion of Mr. Madison's administration. The great questions of our violated neutral rights were discussed with the pen, not only of a jurist, but of a gentleman and a scholar. Mr. Wheaton's long residence abroad had given him peculiar opportunities for understanding the controversies of the day. The new liabilities and duties created by the war, then recently declared, were elucidated by him with the learning of an accomplished publicist and the zeal of a sincere patriot.[11]

Wheaton left his journalism career to become a division judge-advocate of the Army in 1814. Then, he served as a justice in the Marine Court of New York from 1815 to 1819. Wheaton's service on the bench overlapped with his U.S. Supreme Court job.[12]

William B. Lawrence, a Nineteenth Century attorney, politician, and Vice President of the New York Historical Society, praised Wheaton's analytical skills: "The reputation which Mr. Wheaton acquired as a reporter was unrivalled. He did not confine himself to a mere summary of the able arguments by which the cases were elucidated; but there is scarcely a proposition on any of the diversified subjects to which the jurisdiction of the court extends, that might give rise to serious doubts in the profession, that is not explained not merely by a citation of the authorities adduced by counsel, but copious rules present the views which the publicists and civilians have taken of the question."[13]

The Background

Wheaton's *curriculum vitae* indicates a man of great respect, insight, and wisdom. He sought to benefit from his intellect by selling his reports, a common practice for Supreme Court reporters seeking to amplify their income. Wheaton's two predecessors had not even received an income for their reporter jobs, so the sales were vital. Wheaton persuaded Congress to carve out a $1,000 yearly salary, predicated on publishing the decisions in a six-month time frame and delivering 80 copies to the Secretary of State.[14]

Richard Peters succeeded Wheaton as Supreme Court reporter. When Peters tried to carve out a niche in the selling of edited decisions, he raised Wheaton's ire. Peters' plan was to edit 25 volumes of Supreme Court decisions into six volumes. He promoted them as "Proposals for publishing, by subscription, the cases decided in the Supreme Court of the United States, from its organization to the close of January term, 1827."[15] Wheaton saw the potential diminishment of value concerning his product with a competing product that was shorter and, in all likelihood, less expensive. Intellectual property, after all, can be a source of income in addition to satisfying the need for a creative outlet. Wheaton's predecessors, William Cranch and Alexander Dallas, abstained from pursuing lawsuits against Peters. Wheaton moved forward.[16]

Wheaton argued that Richard Peters, Jr. infringed a common law copyright by taking Wheaton's reports and editing them into shorter reports for sale. Wheaton and his publisher, Robert Donaldson, first sued in the Circuit Court of Pennsylvania. After Judge Joseph Hopkinson denied the request for an injunction and dismissed the complaint, Wheaton approached the United States Supreme Court.[17]

> The justices could not have looked to their task with much pleasure, for their relationships with the former court reporter and his successor must have been characterized by a degree of intimacy which made the dispute a personally distasteful one. And they may well have looked to the larger issue of the "great question of literary property" as a means of rising above the personal bitterness the dispute had engendered. They had an almost clean slate, for only two American decisions had been rendered on copyright during the forty-four-year period from 1790 to 1834, and they were assisted by able lawyers. Counsel for Wheaton were Daniel Webster and Elijah Paine, and for Peters, Thomas Sergeant and J.R. Ingersoll, all giants of the American bar.[18]

The Common Law Argument

The Court discussed the validity of a common law copyright argument, the importance of copyright as a constitutionally guaranteed right in a free society, and the rationale for disallowing copyright protection of written Supreme Court opinions.

Additionally, the Court acknowledged a creator's right to benefit from intellectual property. Yet it dismissed Wheaton's argument of a perpetual copyright under the common law of Pennsylvania, the site of the alleged infringement.[19]

Perpetual copyright is a philosophical belief that the creator owns, without restriction or limitation, the right to copy, distribute, or make derivative works from his or her creations. It is an argument for a common law copyright that places copyright in the same arena as tangible property. If one buys a pencil or a pillow or a clock, one owns it until it is disposed of, either by sale or gift.

The argument fails for Wheaton because, ultimately, copyright law is a constitutional right modified by the requirements of the Copyright Act of 1790 and its successor, the Copyright Act of 1802. Article 1, Section 8 of the United States Constitution vests power in the United States 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."

> [T]he law appears to be well settled in England that since the statute of 8 Anne, the literary property of an author in his works can only be asserted under the statute. And that, notwithstanding the opinion of a majority of the judges in the great case of *Miller v. Taylor* was in favor of the common law right before the statute, it is still considered in England as a question by no means free from doubt.
>
> That an author at common law has a property in his manuscript, and may obtain redress against anyone who deprives him of it or by improperly obtaining a copy endeavors to realize a profit by its publication cannot be doubted, but this is a very different right from that which as-

serts a perpetual and exclusive property in the future publication of the work after the author shall have published it to the world.

The argument that a literary man is as much entitled to the product of his labor as any other member of society cannot be controverted. And the answer is that he realizes this product by the transfer of his manuscripts or in the sale of his works when first published.[20]

Further, the Court analyzed the common law implications of copyright in Pennsylvania. Wheaton failed to persuade the Court because his argument rested on a right that does not exist at common law in Pennsylvania or at the federal level. The right of an author derives from the copyright statute, not the judicial granting or interpretation of a copyright.[21] If the Supreme Court had ruled in Wheaton's favor, it could have eradicated the Copyright Act. The statute would, in effect, be deemed irrelevant. This is the crux of the case. As copyright is statutorily granted, it must live within the confines of the statute, not common law.

In the argument it was insisted, that no presumption could be drawn against the existence of the common law as to copyrights in Pennsylvania from the fact of its never having been asserted until the commencement of this suit.

It may be true in general that the failure to assert any particular right may afford no evidence of the nonexistence of such right. But the present case may well form an exception to this rule.

If the common law, in all its provisions, has not been introduced into Pennsylvania, to what extent has it been adopted? Must not this Court have some evidence on this subject? If no right such as is set up by the complainants has heretofore been asserted, no custom or usage established, no judicial decision been given, can the conclusion be justified that by the common law of Pennsylvania, an author has a perpetual property in the copyright of his works.

These considerations might well lead the Court to doubt the existence of this law in Pennsylvania, but there are others of a more conclusive character.[22]

The Statutory Argument

The Court also analyzed Wheaton's argument of fulfilling the statutory requirements, including depositing a copy with the Department of State, thereby achieving a valid copyright that Peters infringed with the edited reports. Wheaton believed that he fulfilled the deposit requirement because of his reporter duties, specifically the delivery of copies to the appropriate parties.[23]

Although the Supreme Court agreed with Wheaton's factual argument, it did not see the translation to copyright validity under the statute. Its rationale stemmed from the purpose of delivery rather than delivery itself.[24]

"The act of Congress under which Mr. Wheaton, one of the complainants, in his capacity of reporter, was required to deliver eighty copies of each volume of his reports to the Department of State, and which were probably faithfully delivered, does not exonerate him from the deposit of a copy under the act of 1790. The eighty volumes were delivered for a different purpose, and cannot excuse the deposit of the one volume as specially required."[25]

The Court's last line perhaps renders its thorough, almost Talmudic, analysis moot. "It may be proper to remark that the Court is unanimously of opinion that no reporter has or can have any copyright in the written opinions delivered by this Court, and that the judges thereof cannot confer on any reporter any such right."[26]

Wheaton later put his legal and writing skills to use by writing *Elements of International Law* in 1836.

Peters, on the other hand, dimmed in comparison to Wheaton. His efforts ignited negative comments from Congress regarding the "accuracy and fidelity" of his *Reports*. The Supreme Court fired him in 1843.[27]

Wheaton and Peters both died in 1848.

Endnotes

1. *Mark Twain quotations—Copyright*, Twainquotes.com, http://www.twainquotes.com/Copyright.html.
2. *Wheaton v. Peters*, 33 U.S. 591 (1834).
3. 1 Eng. Rep. 837 (H.L.) 1774.
4. 33 U.S. at 591.
5. Marshall was Secretary of State under President John Adams from 1800-1801. After losing the 1800 presidential election to Thomas Jefferson, Adams nominated Marshall as Chief Justice of the United States Supreme Court. He manifested judicial review with *Marbury v. Madison* in 1803. "In the autumn of 1800, Chief Justice Oliver Ellsworth resigned because of ill health. Adams, defeated in the November election, tendered reappointment to John Jay, the first chief justice, but Jay declined. Adams then turned to Marshall, and in January 1801 Adams sent to the Senate the nomination of John Marshall to be chief justice. The last Federalist-controlled Senate confirmed the nomination on Jan. 27, 1801. On February 4, Marshall was sworn in, but at Adams's request Marshall continued to act as secretary of state for the last month of the Adams presidential administration." http://www.britannica.com/EBchecked/topic/366573/John-Marshall. Marshall was Chief Justice from 1801-1835.
6. 5 U.S. 137 (1803).
7. 22 U.S. 1 (1824).

8. Frederic Hudson, Journalism in the United States 1690-1872 282 (Haskell House Publishers Ltd. 1873).

9. *Id.*

10. *Id.* at 282-83.

11. *Id.* Edward Everett was a Massachusetts native and noted American politician. Born in 1794, Everett held the positions of Congressman, Senator, Governor of Massachusetts, Secretary of State, President of Harvard University, and Unitarian clergyman. Everett gave a two-hour speech at Gettysburg that preceded President Lincoln's speech heralded for its succinctness. Everett is an ancestor of Twentieth Century comedic actor Edward Everett Horton, perhaps best known for his role as Roaring Chicken, an elderly medicine man of the Hekawi tribe, in the 1960s television sitcom *F Troop*. Horton's grandfather was Edward Everett Hale, the nephew of Edward Everett.

12. Appletons' Cyclopaedia of American Biography, *Wheaton, Henry*, http://en.wikisource.org/wiki/Appletons%27_Cyclopædia_of_American_Biography/Wheaton,_Henry.

13. *Id.*

14. Lyman Ray Patterson, Copyright in Historical Perspective 203 (Vanderbilt University Press 1968).

15. *Id.* at 203.

16. *Id.* at 207.

17. *Id.*

18. *Id.*

19. 33 U.S. at 592.

20. *Id.* at 657.

21. *Id.* at 658-59.

22. *Id.*

23. *Id.* at 667.

24. *Id.*

25. *Id.*

26. *Id.* at 668.

27. *Richard Peters: Biography from Answers.com*, Answers.com, http://www.answers.com/topic/richard-peters.

David Krell is the author of *Blue Magic: The Brooklyn Dodgers, Ebbets Field, and the Battle for Baseball's Soul*. Publication in 2013 is expected. David has spoken at the Society for American Baseball Research's Frederick Ivor-Campbell 19th Century Baseball Conference, National Baseball Hall of Fame's Annual Cooperstown Symposium on Baseball and American Culture, New York Mets 50th Anniversary Conference, Society for American Baseball Research's Jerry Malloy Negro Leagues Conference, and the Mid-Atlantic Nostalgia Convention. David is a featured guest on the podcast Dishing Up the Dodgers where he talks about the history of the Dodgers baseball team. Additionally, David has written for the Dodgers-themed web site Lasordaslair.com, the publishing industry web site publishingperspectives.com, and magazines including Patriots of the American Revolution, Mi Patente, and Filmfax. David is the Co-Editor of the upcoming New York State Bar Association's sports law book *In the Arena*. Publication in 2013 is expected. David is a member of the bars in New York, New Jersey, and Pennsylvania. David's website is www.davidkrell.com.

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Alternative Dispute Resolution
Judith A. Bresler
Withers Bergman LLP
430 Park Avenue, 10th Fl.
New York, NY 10022
judith.bresler@withers.us.com

Judith B. Prowda
Sotheby's Institute of Art
15 West 75th Street
New York, NY 10023
judithprowda@aol.com

Copyright and Trademark
Jay Kogan
DC Comics
1700 Broadway
New York, NY 10019
jay.kogan@dccomics.com

John Britton Payne
Foley & Lardner LLP
90 Park Avenue
New York, NY 10016-1314
bpayne@foley.com

Digital Media
Jason Aylesworth
Sendroff & Baruch, LLP
1500 Broadway, Ste. 2201
New York, NY 10036
jaylesworth@sendroffbaruch.com

Megan Laurel Maxwell
7 Park Avenue
New York, NY 10016
megan.maxwell@gmail.com

Andrew Howard Seiden
Curtis, Mallet-Prevost, Colt & Mosle LLP
101 Park Avenue, Ste. 3500
New York, NY 10178-0061
aseiden@curtis.com

Diversity
Anne S. Atkinson
Pryor Cashman LLP
7 Times Square
New York, NY 10036-6569
aatkinson@pryorcashman.com

Cheryl L. Davis
Menaker & Herrmann LLP
10 East 40th Street, 43rd Fl.
New York, NY 10016
cdavis@mhjur.com

Ethics
Pery D. Krinsky
Krinsky, PLLC
Woolworth Building
233 Broadway, Ste. 707
New York, NY 10279
pkrinsky@krinskypllc.com

Fashion Law
David H. Faux
Law Office of David H. Faux
255 West 36th Street, Ste. 800
New York, NY 10018
davefaux@dhf-law.net

Lisa Marie Willis
207 Prospect Park SW
Brooklyn, NY 11218-1553
lisamwillis@gmail.com

Fine Arts
Judith B. Prowda
Sotheby's Institute of Art
15 West 75th Street
New York, NY 10023
judithprowda@aol.com

In-House Counsel
Kimberly Ayers Shariff
Lincoln Center for the Performing Arts, Inc.
70 Lincoln Center Plaza, Front 9
New York, NY 10023
kshariff@lincolncenter.org

International
Eric Jon Stenshoel
Curtis, Mallet-Prevost, Colt & Mosle LLP
101 Park Avenue
New York, NY 10178-0061
estenshoel@curtis.com

Brian D. Wynn
Gardiner Roberts LLP
40 King Street, West, Ste. 3100
Toronto, ON, M5H 3Y2
CANADA
bwynn@gardiner-roberts.com

Lawyers in Transition
Saryn Elyse Leibowitz
Ellenoff Grossman and Schole
150 East 42nd St, 11th Fl.
New York, NY 10017
sarynl@aol.com

Legislation
Steven H. Richman
Board of Elections, City of New York
32 Broadway, 7th Fl.
New York, NY 10004-1609
srichman@boe.nyc.ny.us

Literary Works and Related Rights
Judith B. Bass
Law Offices of Judith B. Bass
1325 Avenue of the Americas, 27th Fl.
New York, NY 10019
jbb@jbbasslaw.com

Kenneth N. Swezey
Cowan, DeBaets, Abrahams & Sheppard LLP
41 Madison Avenue, 34th Fl.
New York, NY 10010
kswezey@cdas.com

Litigation
Paul V. LiCalsi
Mitchell Silberberg & Knupp LLP
12 East 49th Street, 30th Fl.
New York, NY 10017
pvl@msk.com

Stanley Pierre-Louis
Viacom Inc.
Intellectual Property & Content Protect.
1515 Broadway
New York, NY 10036
stanley.pierre-louis@viacom.com

Membership
Ethan Yale Bordman
Ethan Y. Bordman, PLLC
225 Central Park West, #1014
New York, NY 10024
ethan@ethanbordman.com

Jessica D. Thaler
Law Offices of Jessica Thaler Esq.
125 E .87th Street, Ste. 7F
New York, NY 10128
jthaleresq@gmail.com

Motion Pictures
Stephen B. Rodner
Pryor Cashman LLP
7 Times Square
New York, NY 10036-6569
srodner@pryorcashman.com

Mary Ann Zimmer
Law Office of Mary Ann Zimmer
401 East 74th Street
New York, NY 10021
mazimmer74@aol.com

Music and Recording Industry
Christine A. Pepe
American Society of Composers,
Authors and Publishers
One Lincoln Plaza, 6th Fl.
New York, NY 10023
cpepe@ascap.com

Not-for-Profit
Karen Kolodny
1395 Lexington Avenue
New York, NY 10128-1647
kkolodny@92y.org

Phil Cowan Memorial Scholarship
Judith A. Bresler
Withers Bergman LLP
430 Park Avenue, 10th Fl.
New York, NY 10022
judith.bresler@withers.us.com

Richard A. Garza
Broadcast Music, Inc. (BMI)
250 Greenwich Street
7 World Trade Center
New York, NY 10019
rgarza@bmi.com

Barbara Jaffe
Supreme Court of the State
of New York
111 Centre Street
New York, NY 10013-4306
bjaffe@courts.state.ny.us

Publications
Elissa D. Hecker
Law Office of Elissa D. Hecker
64 Butterwood Lane East
Irvington, NY 10533
eheckeresq@yahoo.com

Publicity, Privacy and Media
Barry Werbin
Herrick Feinstein LLP
2 Park Avenue
New York, NY 10016-5603
bwerbin@herrick.com

Edward H. Rosenthal
Frankfurt Kurnit Klein & Selz, PC
488 Madison Ave
New York, NY 10022-5702
erosenthal@fkks.com

Pro Bono Steering
Elissa D. Hecker
Law Office of Elissa D. Hecker
64 Butterwood Lane East
Irvington, NY 10533
eheckeresq@yahoo.com

Kathy Kim
48 East End Avenue
New York, NY 10028-7976
KathyKim2007@gmail.com

Carol J. Steinberg
74 East 7th Street
New York, NY 10003
elizabethcjs@gmail.com

Irina Tarsis
1115 Prospect Avenue
Brooklyn, NY 11218-1152
tarsis@gmail.com

Sports
Ayala Deutsch
NBA Properties Inc.
645 Fifth Avenue, 16th Fl.
New York, NY 10022
adeutsch@nba.com

Matthew D. Pace
Arent Fox LLP
1675 Broadway
New York, NY 10019-5820
pace.matthew@arentfox.com

Kathleen J. Wu
Andrews Kurth LLP
1717 Main Street, Ste. 3700
Dallas, TX 75201
kwu@akllp.com

Television and Radio
Pamela Cathlyn Jones
Law Offices of Pamela Jones
1495 Cross Highway
Fairfield, CT 06824
pamelajonesesq@aol.com

Barry Skidelsky
185 East 85th Street, 23d
New York, NY 10028
bskidelsky@mindspring.com

Theatre and Performing Arts
Jason P. Baruch
Sendroff & Baruch, LLP
1500 Broadway, Ste. 2201
New York, NY 10036-4052
jbaruch@sendroffbaruch.com

Diane F. Krausz
D. Krausz & Associates
Attorneys At Law
322 Eighth Avenue, Ste. 601
New York, NY 10001
DKrausz@aol.com

Website
Jennifer Meredith Liebman
New York State Division of
Human Rights
1 Fordham Plz, 4th Fl.
Bronx, NY 10458-5871
jennifermliebman@gmail.com

Young Entertainment Lawyers
Ezgi Kaya
110 Horatio Street
New York, NY 10014
ezgivkaya@gmail.com

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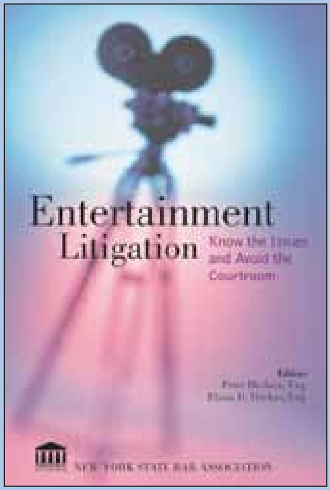

EDITORS

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