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FROM THE CHAIR

Friends and Colleagues,

I hope this finds you well.

I recently had the opportunity to see Bruce Springsteen in concert for the first time since before the pandemic. As is usually the case at a Bruce show, it hit me physically, mentally, emotionally and spiritually. The sense of community and camaraderie reminded me once again of the power of music -- and of entertainment and sports in general -- to bring us joy, to bridge the differences between people, and to help us weather life’s various storms. So I continue to believe that those of us who work in these fields are not only serving our clients, but our greater communities as well.

Entertainment and sports lawyers, along with our clients, have been profoundly impacted by recent developments in technology as well as the law. Our industries continue to undergo enormous changes, and we as lawyers are pushed to keep up with the times. Therein lie both unexpected challenges and remarkable opportunities. I, for one, am grateful to have access to the network of incredible colleagues that I’ve gotten to know by being part of this Forum. I know I’m not alone in that sentiment.

We’ve just completed the Forum’s Spring CLE Conference and Governing Committee meetings in Philadelphia... many thanks to our amazing speakers, and to all of the attendees -- practitioners and law students alike -- for their insights, questions, and enthusiasm.

Looking ahead... the Forum’s Annual Meeting will take place on October 5 - 7 in Las Vegas, featuring three days of cutting-edge sports and entertainment-themed CLE, along with a range of networking opportunities and offsite “extra-curricular” activities. Please mark your calendars; registration materials will be available shortly.

A variety of additional programs will be happening in the coming months, both in-person as noted above, and via various webinars, articles, and Division meetups. I encourage you to get more involved, join one or more of the Forum’s Divisions, sign up for a committee, write an article for this journal, and of course please join us in Las Vegas in October. As lawyers go, we’re more fun than most.

Thanks for reading, and for all your work in our industries. Be well, and I hope to cross paths soon.

Judy Tint
New York, NY
Letter From The Editor

“The Future is unwritten.”—Joe Strummer

Dear Forum Members,

Welcome to Issue 39:1 of the Entertainment and Sports Lawyer! We are excited for this issue. We have a few new authors, a few returning authors, and several incredible, and poignant, articles.

As always, if you have any interest in writing for the Journal, or working with us as an editor, please let me know! We are actively seeking articles from authors for the Journal. I encourage anyone interested to reach out to me and submit articles. We welcome submissions from any and all authors. The Author Guidelines can be found at: http://www.americanbar.org/content/dam/aba/publications/entertainment_sports_lawyer/esl16authorguidelines.authcheckdam.pdf. The pending deadlines for article submissions are:

- Spring 2023 (39:2) (anticipated June Publishing) April 30, 2023
- Summer 2023 (39:3) (anticipated August Publishing) June 15, 2023
- Fall 2023 (39:4) (anticipated December Publishing) September 50, 2023
- Winter 2023 (40:1) (anticipated February Publishing December 15, 2023

Please, share with me your ideas for the Journal.

Best,
Brian A. Rosenblatt
Downey & Lenkov LLC
Editor-in-Chief, Entertainment and Sports Lawyer
An Impassioned Plea

By Polina Ivko

Polina Ivko is a member of our forum, Chairperson of our Sponsorship Division, admitted to the New York State Bar Association and is an authorized house counsel in Florida. Polina, a native of Ukraine and a New York transplant, is actively involved in efforts to help refugees, cultural institutions, and those still on the ground experiencing the brutal Russian assault on Ukraine, both as combatants and simple citizens trying to survive. She has relatives in Ukraine... missing, presumed seriously maimed or dead. In our recent Governing Committee in Atlanta, Polina joined us virtually. These are her words on Ukraine with minimal editing. Some of her words are both disturbing and graphic. Those have not been edited. Peter Dekom

Russia’s bloodthirsty war with Ukraine is a very sensitive subject for me as some of you already know. We still cannot find my mom’s brother, his wife, and their two sons. At this point, we are close to ruling them out as dead. Possibly one of those mass graves, making it difficult to identify all victims... if you follow the news, you know what I am talking about. So that’s pretty much what’s on my personal front.

I think that what United States doesn’t do enough is spread more genuine awareness. I know that first week or two of the war, it was hot and heavy in the news. However, now it seems like everybody is just going about their business, shifting this into a very political twist. I do not consider this as a purely political affair for myself personally because it’s not just the military men that are dying. In fact, Ukraine is so strong that it does not have significant enough military losses yet. Russia, on the other hand, is the one who suffered tremendous losses. A lot of you may have heard that the majority of the invading Russian troops, military equipment and vehicles that entered the Ukrainian soil have been destroyed.

But who is really suffering? The Ukrainian civilian society does, especially the vulnerable members. I’m talking about elderly and disabled people, women, children, and yes, men too. For instance, one of my best friends from high school messaged me today saying that her stepdaughter was with her mom at the time of shooting by Russian soldiers into civilian cars. Unfortunately, it happened in Bucha, which a lot of you have already heard about, while it was under siege. The child has no arm now; it is very, very serious.

And it’s not only about Putin. It’s also about the monsters of Russian society that are rushing in to fight. They are raping women and children. Many children were found with absolutely damaged anuses and vaginas... I read that some were as young as five years old... and I’m sorry if this sounds very graphic, but I think it is extremely important to ensure awareness on what is going on and the fact that it’s not just about the politics. It is about the monsters that they’re sending, whose wives with children reportedly support this behavior. They call Ukrainians the Nazis? The only modern-day fascists I see are Russians, who support the war and their dictator.

That’s why we call Putin and all war supporters "Russists," meaning Russia’s fascists. All that being said, I’m not implying that you need to hate all the Russian people. My assistant is originally from Russia (although with Ukrainian blood of the esteemed writer Nikolai Gogol), but she’s squarely against the war. She has been helping my Ukrainian team members and the victims in every way. I know many other Russian folks who have been sending aid to the refugees, the military, the civilians on the ground, and...
even animals in Ukraine. A lot of anti-war Russians support our Ukrainian efforts against this absolute genocide.

What these invading Russians are trying to do is not simply take the land; they’re trying to eradicate the entire cultural identity of Ukraine. That has been going on for centuries and is not news. Ukraine has its own language, cuisine, customs, and traditions. Indeed, Ukrainian territory is probably one of the oldest in the world, having been inhabited as early as 32,000 BC. You cannot just go and attempt to erase cultural identity like that. That is absolutely unacceptable.

Frankly, some people are even daring to say that the Germans were nicer than the Russians in terms of what they’re doing to Ukraine right now. I will not go there as obviously not a fair comparison but that makes one think at least for a moment. Part of statements like that are coming, unfortunately, because of the news we get from the recaptured municipalities, as well as Mariupol that hasn’t been returned yet. Still, after of the horrors that Russians have inflicted, after all of those pictures of children and women that you may have seen… naked bodies… bones… body parts… I’m sure many of you know exactly what I’m talking about. That is why you see serious hatred towards Russia and what they’re doing. Never forget.

In Mariupol, the Russians reportedly have this machine, a vehicle that serves as a mobile crematorium, to burn Ukrainian bodies and thus destroy the evidence because they don’t want a repeat of the deeply negative press that they received from the media in Europe and Ukraine and even some in America. Again, the issue is very serious.

The war is not over yet, even though you may see news that Russian troops may step back or have stepped back… but not really. They threw a bomb on to a train station where, again, elderly, disabled, and mothers with their daughters and sons were trying to evacuate. I heard, and this is not [an]accurate number because they’re still gathering information, that there were about 1000 people present at the station. So far: 50 confirmed deaths. Of that 50 confirmed, most were… I cannot repeat this enough elderly, children, women, and disabled people. If that’s not a monsters’ approach, I don’t know what is.

That is not okay no matter what political beliefs the invaders may have. We understand that they want Crimea badly, that they want to create a tunnel from Mariupol for easy access to Crimea and all of that, but is it worth many lives of beings that are truly innocent? Again, these Ukrainian casualties are not military people.

Regrettably, I don’t even have enough time to cover how this has affected the culture and creatives with many of whom I’ve been working at one or another point of my career. Indeed, some are my current clients and friends. Those who are too mature to actively fight, nonetheless, are using their art as ammunition in the most heroic ways. Of course, the older creative can’t really fight, but they go and they sing songs to the troops on the military bases, to the children in the hospitals, to people who are trying to survive or trying to take refuge on the border. They’re singing and they’re up keeping the spirits, and let me tell you, the Ukrainian spirit will not break down. Based on what I’m hearing from my contacts so far, they would rather die than be under the Russian rule ever again. And I frankly support that position wholeheartedly.

Because, again, some of you may have heard or seen posted… that many Ukrainians support this Russian “rescue” as alleged by Russia… it’s not true. I think the Russian attitude of envy reflects what is going on with this whole Russian/putin view: Who gave you [Ukrainians] the permission to live so well? Because Ukraine was always more Westernized and more of a European country. We always had very close ties.
with the United States too. Many of the allies from those regions have, of course, been helping and partnering with Ukraine. This has been, in part, the accomplishment of the new, young President Zelensky, who is actually not that much older than me and who many say has been really one of the strongest and genuine leaders in the world. He has a kind of grace and dignity that we should all aspire to. For what he has been dealing... there are no words adequately to express my feelings. As I said, I apologize for my passion. It’s an extremely sensitive subject for me.

Today, I ask everybody to keep the awareness going; don’t stop talking about it. Don’t just flip through graphic pictures. You need to see this, and you need to understand what we are all dealing with. If you have the financial ability or an alternative way to help, please do. You know, even some of my colleagues in the Forum have already started to actively aid... I’ll give a shout out to past Forum chair, Kirk Schroder, who has generously offered a couple of real properties for when Ukrainian refugees start coming to United States, which has been most difficult for them so far. Right now, they’re all going to Canada because they’re already getting special status there. But please advocate with your elected representatives that these refugees need to come to United States more easily and in greater numbers.

I am not sure that this war will end with Ukraine. It is quite possible that in the summertime, Western Europe will be full on in World War III as well. I cannot say this enough: we need to work as a group... not just send money, not just provide moral support, but please keep the awareness going and be prepared for the worst. Understanding that everybody needs to be ready tomorrow, even though this can be very, very difficult to envision for us in the United States. You know, we need to help our brothers and sisters in Ukraine. You know, this could be me and this could be you. This could be your kid. This could be your mother, your father. Your cousins; it could be anyone. So please, please, please keep the awareness going, keep donating if you have the ability, keep sending clothes and baby needs to refugees, do whatever is your bandwidth.

Not everybody has the money to be able to support an individual refugee, to rent an apartment, as well as buy clothing and food. A lot of my friends, who have good jobs and everything, have already spent most of their savings because they understand, and some know first-hand what happens to brutally invaded countries.

I take my hat off to the Polish president who also has acted very graciously through this period and has been a real partner of Ukraine. However, private citizens have been jacking up prices for apartments like there’s no tomorrow. And as for the refugee camps, they’re putting people in hastily established, temporary facilities that have the most disgusting conditions. We all know this. It’s not news, right? Usually, refugees don’t get normal accommodations. I’m not saying that they need be in the Ritz, but even temporary housing should at least be something nicer... when you’re there with your baby trying to breastfeed... these are primarily women and children... and maybe a few elderly people who cannot serve due to health reasons.

Also, if you want to donate, I don’t recommend doing it to some of the larger organizations like Red Cross. You may have heard the controversy over the money that they’ve allegedly been channelling to Russia. Watch out for other charities, which may not be legitimate where the money doesn’t go where it’s supposed to go. That happens a lot, of course, in situations like that... So be careful with that.

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General Counsel Spotlight: Marcus LeBeouf, General Counsel, Chicago Blackhawks

By Jollena Collas

Marcus LeBeouf holds numerous roles: father, husband, son, community leader and General Counsel for the Chicago Blackhawks and its affiliated entities. He barely finishes each day before he’s already thinking about the next day and how he can accomplish more for the people and missions he serves. Even as a kid, LeBeouf knew he wanted a career in sports law and, after receiving his undergraduate degree from Morehouse College and juris doctorate from Duke University, worked as a corporate attorney in various settings (large law firm, mid-sized law firm, publicly traded companies) but spent his spare time searching and waiting patiently for the right opportunity in sports to come along. When the opportunities came, he put his all into the ensuing preparation and swung for the rafters in each instance; tailoring the resume, polishing the cover letter, perfecting the cover email, lining up the right references, pinging those in close proximity to the team’s employees via LinkedIn, etc. No stone was left unturned.

LeBeouf even carried a reminder of his dream with him at all times; a folded piece of paper in his suit pocket on which he wrote out a mock-up of his future email signature: full name and perhaps the title of the job he was applying for at the time— an aide of sorts to visualize his eventual entrance into sports law and an affirmation of his professional goal. And one day, the vision became reality. “Just recently I put my hand in a suit pocket and found a paper from 2010 with the words ‘Marcus A. LeBeouf, Assistant General Counsel, Jacksonville Jaguars, Ltd.’” he says. “This happens all the time and I love to put them right back where I find them. I never want to forget how long and arduous this journey was. I never want to lose that hunger.”

“I look back and I am so grateful for all of the dreams that were delayed; the blessings deferred. Each denial led me to where I am today and the additional time spent outside of sports served to deepen my substantive abilities and help me hit the ground running when the right opportunity did present itself.” LeBeouf’s first sports job was as Assistant General Counsel with the Charlotte Hornets for substantially less money than what he was accustomed to making in private practice, but that role afforded him the opportunity to learn from the incredible Joe Pierce whom he frequently praises for providing valuable mentorship and development during LeBeouf’s four years in Charlotte. With the Hornets, he provided legal support across the Hornets’ full portfolio of business ventures and was instrumental in the acquisition, branding and operation of a new franchise in the NBA’s 2K League and in negotiating the Hornets’ first jersey patch deal.

LeBeouf admits that, early in his career, he would have taken any position in sports, but remaining patient allowed him to accumulate a wealth of development opportunities...
and experiences which made him an asset within the in-house setting. Drawing upon these prior experiences as a corporate attorney have equipped LeBeouf with the ability to be innovative in developing comprehensive legal strategies, analyzing enterprise-wide risk and advising on crisis scenarios with related public response. As a key member of the Blackhawks’ executive leadership team, LeBeouf oversees all legal matters for the Chicago Blackhawks, Chicago’s Fifth Third Arena, the team’s minor league affiliate, the Rockford IceHogs, the team’s charitable foundation and various unaffiliated private equity ventures. LeBeouf also routinely collaborates with the Chicago Bulls who are co-tenants with the Blackhawks at the United Center.

LeBeouf is the Blackhawks’ first-ever general counsel and is among the first African-American legal chiefs in the National Hockey League (the “NHL”). This milestone for Black lawyers in the NHL reflects a recent push to focus on equity throughout the league and, for the Blackhawks, specifically, LeBeouf’s hiring comes at a time of unprecedented change and growth. Having joined the NHL in 1926, the Blackhawks have a long and established history in American Hockey and were notably part of the NHL’s first wave of expansion into the United States. LeBeouf considers it both a privilege and a tremendous responsibility to join the NHL and the Blackhawks during this new chapter and cherishes every day in which he is able to combine his passion for sports with his fervent desire to be a substantive lawyer who contributes meaningfully to the business and strategic goals of the organization, all while promoting diversity, equity and inclusion.

“Writing a new chapter to the story of such a historic franchise is a dream come true,” LeBeouf says. “Eighteen months into the job and thinking about all of the things our organization is doing; it really does make all the late nights, early mornings and busy weekends well worth it.” LeBeouf understands all too well that being the lead lawyer for a public-facing organization far exceeds the call of most jobs and brings with it a heightened sensitivity to all external stimuli. “One of the most special things about being in sports in general, as best said by [the Blackhawks’] President of Business Operations, Jamie Faulkner, is that this really is a lifestyle position and career,” LeBeouf says. “You don’t get to pick it up and put it down whenever the mood suits you. You live and breathe it at all times. Your life is dictated by the ebbs and flows of the NHL schedule during the season and, surely weaving in throughout the year, there are various other sensitive issues that inevitably need to be addressed in real time. While everyone else is enjoying Christmas Day or Thanksgiving dinner, you might need to be traveling on the road with the team or dealing with some other reputational risk that can’t wait for the holiday weekend to wind down. Crisis doesn’t care if it’s Christmas Eve or the day of Thanksgiving and your whole family just flew into town.” Notwithstanding the foregoing, LeBeouf goes on to point out that the challenging demands are just part of the beauty of sports and the concept of “team” carries a heightened meaning for LeBeouf. LeBeouf’s unwavering dedication to the organization is most obvious as he talks about his hopes for the Chicago Blackhawks and the organization’s impact on his entire family. LeBeouf did not grow up watching hockey, but the same will not be said for his children, Marcus Jr. and Sydney. “[Hockey] becomes a part of you and it becomes a part of your family,” he says. “I don’t have to explain to my wife why I’m passionate about this job—she’s there with me; she’s at the games; it’s a part of her as well. It has become a family passion.” LeBeouf says his role has given him a deep appreciation for hockey culture and a commitment to growing the sport throughout the Greater Chicago Area. “We don’t want [the community] to just consume the content—we want them on the ice, understanding the game. Only when you experience it in that way do you appreciate the beauty of the sport.”

As a leader in the community, LeBeouf is particularly passionate about the team’s various youth programs and the efforts of its charitable foundation where he serves as a member of its Board of Directors. “Sports is all about the team atmosphere and the surrounding community in which we operate. I prioritize community impact and it’s that commitment to community that promotes a lasting legacy for my children.
to be proud of.” Speaking further on the importance of legacy, LeBeouf describes a large picture in his office depicting a parade in the streets of Chicago after the Blackhawks won their 6th Stanley Cup in the 2014-2015 season. While not employed by the Blackhawks at that time, all employees who were around back then speak with an intense nostalgia that is almost intoxicating to the senses. “It’s almost as if time stops when you’re celebrating any championship and that’s something I really want to experience and share with my family one day. Winning at that level is very difficult but we are all in this because of our competitive nature and I want to provide my friends and family with something tangible to symbolize my journey into sports and leave them with a feeling that they can carry with them for the rest of their lives.”

[While writing this story, LeBeouf’s father passed away following an 8-month-long battle with complications following a prior surgery. On the bright side, and with divine timing, LeBeouf was also designated as a “Notable Gen X Leader in Sports” by Crain’s Chicago and a finalist (three total) for the “2021-2022 General Counsel Impact Award” by the National Law Journal.]

“I give all glory to God and all honor to my father with every personal and professional accomplishment I am fortunate enough to collect. The Bible says ‘whatever you do, do it heartily, as for the Lord…knowing that from the Lord you will receive the reward of the inheritance.’ This verse serves as my constant reminder for why I pursue excellence so vigorously,” LeBeouf shares. “What separates the good lawyers from the great ones is the willingness to go the extra mile when the bare minimum may be enough. The willingness to draft the detailed summary via cover email at 2am before distributing a document when you need to be up in 4 hours to get the kids ready for school. The willingness to make others look good and to never breathe a word of your contribution in self-aggrandizing fashion. The willingness to be ‘thrown under the bus’ so that a co-worker can consummate a deal and/or save face. These are the sacrifices of an effective general counsel. This is the selflessness that wins championships.”

In speaking of his father and the renewed importance of creating a lasting legacy, LeBeouf remarks that “Every man wants to make his father proud and I know that I have far-exceeded every hope, dream and expectation my father had for me. But, the most important message I want to leave you with is that my dad far-exceeded every hope, dream and expectation I had of him as a parent and role model; I won’t allow myself to slow down or be outworked because of the intense pride I have in my dad, Marcus Melville LeBeouf, and all of the valuable lessons he taught me.”

LeBeouf closes with tears of joy stating “Rest In Heaven to my hero, best friend and best man.”
Fake Loot, Real Money: The Uncertain Legal Future of Loot Boxes

John Bennett

B.S. Economics, University of Nevada, Reno; J.D. University of California, Hastings College of the Law.

Introduction
The video game industry has generated more revenue and profit over the past ten years than the movie and music industry combined. In the wake of growing development costs and continuously evolving consumer demands, such success can be attributed in part to the innovative monetization practices of video game developers and publishers. Specifically, the video game industry has perfected various means of extracting recurring revenue streams from their customers. One of the primary methods of which includes the implementation of post-sale purchasing opportunities recognized as microtransactions. While microtransactions have proven wildly successful from an economic perspective, they have received substantial condemnation from the gaming community. However, a unique form of microtransaction, referred to as the “loot box,” has generated unparalleled concern from an array of audiences.

A conglomeration of political figures, behavioral psychologists, concerned parents, and gamers have advocated for the regulation of loot boxes due to their predatory nature and similarities to online gambling. In response to these concerns, several foreign jurisdictions have released case studies, authoritative opinions, or statutory guidelines addressing the matter. While Congress has managed controversies from the video game industry in the past, such as the sale of violent video games to minors, the unique attributes of loot boxes render it unclear whether any existing legal architecture could be leveraged to adequately respond to the threats they pose.

In response to the loot box conundrum, Senator Josh Hawley introduced the Protecting Children from Abusive Games Act (“PCAGA”) to Congress, targeting “pay-to-win microtransactions and sales of loot boxes” in May of 2019. However, this is not the first attempt to regulate loot boxes, with efforts from Hawaiian House Representative Chris Lee and Washington State Senator Kevin Ranker having failed in the past. Although, Hawley’s efforts appear to be more promising than that of his predecessors. In August of 2019, the Federal Trade Commission (“FTC”) hosted a public workshop to examine consumer protection issues presented by loot boxes, and in August of 2020 the FTC released a staff report publicizing their findings. Nonetheless, with the fate of Hawley’s bill yet to be decided and relevant case law surrounding loot boxes still in its infancy, it is uncertain how the loot box controversy will be unpacked. Formulating reasonable predictions will require an in-depth look at the development of loot boxes, the threats they pose, and the potential effectiveness of proposed solutions.

I. Developing Alternative Monetization Strategies And Paying To Win
Retail prices for video games have adjusted disproportionately to development costs over time. For reference, following the release of Atari’s Pong, the video game industry generated an estimated revenue of $40 million in 1973. In 1997, the video game industry produced over $25 billion in revenue, with individual games such as Final Fantasy VII amassing development budgets as high as $45m. In 2019, the video game industry boasted revenue of $120 billion, with individual games in recent years, such as
Red Dead Redemption 2, carrying development budgets nearing $170 million.16 However, throughout this time period, retail prices for big-budget video games gradually decreased from around $100, eventually leveling out at $59.99 in the early 2000s.17 To remain profitable in this new era of price standardization, video game developers have explored alternative means of monetization.18 The most successful of these has proven to be “microtransactions.”19

In the video game industry, microtransactions generally refer to the sale of digital assets purchased with incremental sums of real-world currency in addition to a game’s retail price. These digital assets commonly comprise aesthetic modifications or items, which players can use to enhance their virtual characters and playing experience.20 A loot box is a form of microtransaction consisting of a randomized set of in-game content; this content may range from common, seemingly valueless virtual goods to increasingly rare, highly sought-after items.21 While the utilization of loot boxes can be traced back to Chinese online-multiplayer games as early as 2006, loot boxes were first popularized in the Western marketplace by Electronic Arts (“EA”) in 2009.22

Ultimate Team Mode, released as a downloadable expansion for EA’s successful soccer game FIFA ‘09, included a feature allowing users to purchase virtual “card packs” through microtransactions.23 Card packs contained a randomized set of character cards, each representing an individual soccer star with a unique set of in-game attributes.24 After acquiring a given character card, the user could add that specific soccer star to the in-game team they would utilize online. Since rare cards represented soccer stars with powerful in-game attributes, the player who purchased the most card packs was more likely to control the best team on the field. For this reason, loot boxes containing digital content that enhances in-game performance quickly became criticized as a “pay-to-win” mechanic.25 However, criticisms surrounding loot boxes were not limited strictly to “pay-to-win” mechanics, but also to predatory marketing practices and concerns of online gambling.26

II. Exploiting Vulnerable Target Markets And Rolling The Dice

A. Predatory Practices Surrounding Loot Boxes

Certain video game developers intentionally design loot boxes in a manner which exploits minors and fosters behavioral addiction.27

1. Exploiting Minors

The US Department of Education recently reported that over 30% of students have been bullied based on their appearance throughout their primary and secondary education.28 Additionally, the Pew Research Center found that nearly 60% of teens have experienced cyberbullying.29 Given these numbers, it is no surprise that cyberbullying commonly takes place within the confines of online gaming.30 Since minors are noticeably susceptible to being bullied based on their appearance, there is a significant likelihood that some would attach a heightened degree of value or self-worth to their digital features.31 This concept was demonstrated in a study where middle-schoolers were found to self-identify with video game avatars much more strongly than other age groups.32 Additionally, this study found that the degree of self-identification with video game avatars was strongest in populations that had been victim to bullying and or suffered from low self-esteem.33

Video game developers have capitalized on these vulnerabilities by implementing loot boxes that contain a hierarchy of in-game character customization options.34 Specifically, loot boxes commonly contain character “skins” that modify the appearance of a player’s in-game avatar.35 By manipulating the statistical likelihood that a certain skin will be awarded to a player when opening a loot box, video game developers are able to create a sense of rarity and prestige surrounding distinct in-game appearances.36 To maximize
profits derived from the desire to modify one’s in-game appearance, video game developers offer the most prestigious character customization options strictly via loot boxes. Because the contents of loot boxes are commonly randomized, there is no guarantee that a player will receive the item they desire when opening one. As such, players may elect to continue purchasing loot boxes until the desired item is received or until they run out of funds to continue to do so. In one extreme instance, a player requested that a game developer remove the ability to purchase loot boxes from their account because they could not control their spending behavior while in pursuit of individual items. This scenario exemplifies how video game developers can utilize loot boxes to sell digital items at significantly higher prices than what a traditional market facilitating direct purchases would afford. Unsurprisingly, the implementation of such predatory tactics has resulted in microtransactions generating more revenue than base-game sales in numerous instances.

2. Fostering Behavioral Addiction

Some video game developers intentionally market and design loot boxes in a manner which fosters behavioral addiction. At the 2018 4C International Game Developers Conference, Ben Lewis-Evans, a User Experience Researcher for Epic Games, delivered a presentation wherein he suggested that the success of loot box sales in many games such as Fortnite could be attributed to scientific findings related to reward psychology. Specifically, by emulating the risk, reward, and chance ratios of traditional casino games, video game developers are able to create a microtransaction providing powerful neurological responses.

Studies indicate that the chief neuromediator of incentive motivation, dopamine, is released in quantities similar to drug use when gambling. Psychologists initially believed that powerful neurological responses experienced when gambling were due to the reward of winning money. However, research has shown that dopamine release in gambling is most closely associated with the inability to predict reward occurrence as opposed to the specific prize that is attainable. Thus, by emulating the risk, reward, and chance ratios of traditional casino games in loot boxes, certain video game developers knowingly implement a microtransaction that provides users with a dangerously addictive dopamine response. To further exploit this opportunity, these developers choose to program specific in-game items to be unavailable via direct purchases, coercing users to purchase loot boxes instead. However, this is not the only means by which some video game developers foster behavioral addiction.

In addition to leveraging statistics to condition recurring purchases, video game developers have also designed and patented processes aimed at manipulating online interactions between players to encourage microtransactions. The most notorious iteration of such a process is described within Patent No. 9,789,406, which was issued to Activision by the United States Patent and Trademark Office on October 17, 2017. This patent describes and protects a process that deliberately matches novice players with more experienced, marquee players in online multiplayer scenarios. Specifically, by forcing this uneven matching of players, Activision and their licensees seek to encourage junior players to make in-game purchases in hopes of obtaining items possessed and used by marquee players “to emulate their appearance.”

Since exclusive items are commonly attainable strictly via loot boxes as opposed to direct purchases, Activision’s system and approach can contribute dramatically to game developer revenues. Any developer implementing such a system is provided with a near guarantee that new users will be exposed to loot boxes. Additionally, when a user purchases a loot box in hopes of obtaining a specific in-game item, they are significantly more likely to engage in recurring transactions until the item is received. If the specific item is eventually obtained, the dopamine release associated with that transaction is heightened compared to the pleasure derived from other loot box purchases.

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odds of receiving a given reward, the more powerful the neurological response is expected to be from its ultimate acquisition. Thus, by incentivizing junior users to emulate the specific appearances or items utilized by marquee users through the purchase of loot boxes, developers such as Activision foster behavioral addiction.

B. Analogies to Online Gambling
Numerous political figures have expressed concerns that loot boxes constitute a form of online gambling given the fact that they may be purchased with real-world currency and award players with in-game items based on elements of chance. Notably, in 2017 Chris Lee from the Hawaiian House of Representatives publicized his position on loot boxes by announcing a bill aimed to address video game publishers luring kids into “online casinos.” Additionally, Washington state Senator Kevin Ranker introduced a bill calling for an investigation as to whether loot boxes constitute a form of online gambling under Washington state law. While these legislators’ efforts have been unsuccessful in establishing a regulatory regime governing loot boxes, Senator Josh Hawley of Missouri introduced a bill of his own to Congress in May of 2019 that appears fairly promising. Hawley’s bill successfully sparked a public workshop in August 2019 where the FTC examined consumer protection issues surrounding loot boxes. In August of 2020, the FTC issued a staff report outlining and endorsing the concerns raised at this event such as pay to win mechanics, negative impacts on children, similarities to gambling and undisclosed odds. Despite the FTC’s recognition of the dangers loot boxes may pose, Hawley’s bill remains in review by the Committee of Commerce, Science, and Transportation; certainly, not all take the position that loot boxes warrant immediate regulation.

Some have sought to undermine the characterization of loot boxes as a form of online gambling. Notably, the Entertainment Software Ratings Board (“ESRB”) issued a public statement identifying that while there are elements of chance within the mechanics of loot boxes, unlike in traditional gambling, purchasers of loot boxes are always guaranteed to receive some type of reward. While this argument may initially appear convincing, it is unclear whether the legislative and judicial branches of the United States would agree.

III. Gambling Regulations in the United States

A. Current Federal Regulations
No federal law currently sets forth an explicit definition of the behaviors or elements that constitute gambling. Nonetheless, the Interstate Wire Act of 1961 and the Unlawful Internet Gambling Enforcement Act of 2006 regulate activities in connection with gambling. The Interstate Wire Act of 1961 (“Wire Act”) was enacted to disincentivize gambling by imposing a fine or imprisonment on those engaged in the business of betting or wagering for certain behaviors. Specifically, the statute states:

Whoever being engaged in the business of betting or wagering knowingly uses a wire communication facility for the transmission in interstate or foreign commerce of bets or wagers or information assisting in the placing of bets or wagers on any sporting event or contest, or for the transmission of a wire communication which entitles the recipient to receive money or credit as a result of bets or wagers...shall be fined under this title or imprisoned not more than two years, or both.

Surprisingly, the statute does not provide an explicit definition of “bet or wager.” Given this built-in ambiguity, various courts initially held differing opinions as to whether the Wire Act was applicable to specific businesses such as those providing out-of-state payment processing services for gambling.
websites. However, in 2011, the Justice Department issued a memorandum addressing circuit splits on this issue detailing that the Wire Act is applicable only to interstate transmissions related to a sporting event or contest. As such, loot boxes and many gambling activities unrelated to sports betting are considered outside the scope of the Wire Act.

The Unlawful Internet Gambling Enforcement Act of 2006 (“UIGEA”) was enacted to address the technological shortcomings of traditional gambling regulations such as the Wire Act. Specifically, the UIGEA imposes fines or imprisonment on gambling-related businesses that accept payments in connection with unlawful internet gambling. However, while the UIGEA did not specify what activities constitute “unlawful internet gambling,” relying largely instead on state action to make that determination, it did present an explicit definition of a “bet or wager,” as follows:

“the staking or risking by any person of something of value upon the outcome of a contest of others, a sporting event, or a game subject to chance, upon an agreement or understanding that the person or another person will receive something of value in the event of a certain outcome.”

Nonetheless, individual states are free to determine what behavior they believe constitutes a “bet or wager” and whether such behavior is considered unlawful.

B. Other Legislative Efforts to Further Regulate Gambling

In 2007, the House of Representatives introduced multiple bills seeking to undermine the harsh regulations of the UIGEA. Notably, the Internet Gambling Regulation and Enforcement Act and the Internet Gambling Regulation and Tax Enforcement Act were introduced to establish a regulatory structure for internet gambling businesses rather than prohibit them from receiving payments in connection with unlawful gambling activity. Under these bills, the Secretary of the Treasury would license, regulate, and tax internet gambling businesses. Despite bi-partisan support and numerous co-sponsors, Congress failed to enact these bills. Thus, in the absence of a comprehensive federal statute, the determination of whether loot boxes constitute a form of online gambling must be analyzed on a state-by-state basis.

C. State-based Approaches to Regulating Gambling:

States have traditionally regulated gambling under the authority of their police powers derived from the 10th Amendment. Most states have been favorably receptive to some form of in-person gambling, with Hawaii and Utah being the only two states in the union to ban gambling entirely. However, online-gambling has yet to enjoy widespread acceptance primarily due to concerns of impractical regulatory enforcement. Currently, there are twelve states that allow for at least one form of online gambling within their borders. Given this state-specific approach to gambling regulation and lack of federal leadership, there is no unanimous definition of what behaviors or elements constitute gambling, although various state statutes and proposed bills targeting gambling do contain notable similarities. Regardless of their position on the legality of gambling, state gambling statutes commonly encompass the elements of “consideration,” “chance,” and “prize” or “value.”

Nevada is widely considered to be the state with the most favorable gambling laws, having decriminalized certain forms of gambling in 1869 and legalizing gambling outright in 1931. Nevada defines a “gambling game” as “[a]ny game played with cards, dice, equipment or any mechanical, electromechanical or electronic device or machine for money, property, checks, credit or any representative of value . . . .”

Apart from a brief period in the 1920s, all forms of gambling have been deemed illegal in Utah since the inception of the state in 1896. As such, Utah has developed a reputation of having the most restrictive
gambling laws in the United States. Utah currently defines “gambling” as “[r]isking anything of value for a return or risking anything of value upon the outcome of a contest, game, gaming scheme, or gaming device, when the return or outcome is based on an element of chance.”

While California may be considered to hold a more liberal stance on casinos compared to many other states, much of the gambling environment is controlled by tribal regimes. Thus, “gambling” is not explicitly defined under California law. Instead, California case law has established that for an activity to qualify as gambling, three elements must be present: (1) a prize, (2) awarded through an event of chance, (3) in exchange for consideration.

The State of Washington is certainly not opposed to gambling, but it has approached the legalization of specific gambling activities very cautiously. The State of Washington currently defines gambling as “staking or risking something of value upon the outcome of a contest of chance or a future contingent event not under the person’s control or influence, upon an agreement or understanding that the person or someone else will receive something of value in the event of a certain outcome.”

Given the similarities between states’ definitions of gambling, regardless of their position of its legality, it is clear that “consideration,” “chance,” and “prize” or “value” must be evaluated when determining whether loot boxes are considered a form of online gambling.

IV. Analysis of Loot Boxes Under United States Gambling Laws

A. Consideration
To be considered gambling, as opposed to a sweepstakes or a lottery, each state requires a player to stake or risk something of value. What exactly a player stakes or risks serves as the consideration for the potential gambling activity. However, various jurisdictions have interpreted what constitutes a sufficient form of consideration quite differently. The view held by a majority of United States jurisdictions is that a player must offer a monetary payment or something of monetary value to constitute consideration within the context of gambling. From this perspective, “something of monetary value” is construed conservatively, generally requiring “something” to have direct monetary or tangible value, as opposed to being exchangeable for money.

Other jurisdictions have interpreted what constitutes “something of monetary value” more broadly. In Kater v. Churchill, the Ninth Circuit held that virtual items which extend entertainment privileges may fulfill the value requirement of consideration in a gambling analysis under Washington State Law. A minority of jurisdictions, such as New York, interpret consideration in a gambling context more similarly to consideration in contract law, which may include “any right, interest, profit or benefit accruing to one party, or some forbearance, detriment, loss or responsibility given, suffered or undertaken by the other.”

Whether a player purchases a loot box with real-world currency, or with virtual currency generated through in-game play, would impact the likelihood of a court to determine that gambling has taken place. Under the majority view, a loot box would need to be purchased with real-world currency to fulfill the value requirements of consideration in a gambling analysis. Under a more lenient interpretation of consideration, something of value may include real-world currency and in-game currency which serves as a form of credit or as a resource for extended entertainment privileges. From the perspective of a minority of jurisdictions, adequate consideration may include real-world currency or in-game currency accumulated through in-game play, given the time and effort represented by the in-game currency. Due to this jurisdictional split, there is a likelihood that the purchase of loot boxes with in-game virtual currency may not fulfill consideration requirements in many gambling analyses. However, even if one were
to assume loot boxes were purchased only with a universally accepted form of consideration, real-world currency, the issue of whether such consideration is “risked or staked” remains.

Certain figureheads in the video game industry, such as the ESRB, have taken the position that nothing is risked or staked when purchasing a loot box given the player will always receive something of value.\textsuperscript{101} From this perspective, purchasing a loot box is more akin to purchasing a pack of trading cards, in that a user may not obtain the contents they desire but will always walk away with something of value. However, there are three primary weaknesses to this argument.

First, while the sale of trading cards is ubiquitous, courts have yet to formally determine whether such activity does or does not constitute gambling. Throughout the 1990s and 2000s, several court cases were brought under federal RICO law against various trading card manufacturers.\textsuperscript{102} In \textit{Price v. Pinnacle Brands}, likely the most notable of such cases, plaintiffs attempted to recover “gambling losses” incurred while purchasing trading cards.\textsuperscript{103} Specifically, plaintiffs alleged that Pinnacle had engaged in illegal gambling activity by manufacturing and randomly inserting exceptionally rare cards, referred to as “chase cards,” in packs of trading cards.\textsuperscript{104} Plaintiffs attempted to categorize the money they had spent while failing to acquire these chase cards as “gambling losses,” recoverable under federal RICO laws.\textsuperscript{105} However, the court dismissed these claims for lack of standing and refused to address whether the sale of trading cards amounted to illegal gambling.\textsuperscript{106} Notably, the court stated that injury to expectancy interests or to intangible property interests are insufficient to confer RICO standing.\textsuperscript{107} As such, all subsequent RICO claims seeking to recover gambling losses against trading card companies were dismissed for lack of standing.\textsuperscript{108} Thus, no U.S. court has formally determined whether the sale of trading cards amounts to gambling.

The second weakness to the argument suggesting loot boxes contain insufficient elements of “risk or stake” is how courts have treated chance-based vending machines.\textsuperscript{109} In \textit{State v. Apodoca}, the operator of a vending machine that dispensed chewing gum along with a chance to win a prize of additional value was charged with operating an unlawful gambling device.\textsuperscript{110} The defendant argued that users of the vending machine were not engaged in a game of chance, because, while the purchaser enjoys a possibility of winning additional items, there is no chance of loss since the purchaser is sure to obtain a piece of chewing gum.\textsuperscript{111} However, the New Mexico court rejected this argument, holding that the machine was a gambling device because the return to the customer was dependent on an element of chance, even if the player was guaranteed something of value from each purchase.\textsuperscript{112} This view was adopted in many future cases and ultimately led to the elimination of chance-based vending machines.\textsuperscript{113} Thus, it is unlikely that loot boxes can avoid being classified as a form of gambling merely because the purchaser always receives something of value.

The third weakness relates to the nature of how users receive the contents of loot boxes compared to the purchase of trading cards. When purchasing a pack of trading cards, a consumer is always guaranteed “something of value” because they receive unencumbered title to their purchase.\textsuperscript{114} Thus, even if the consumer receives a pack of trading cards that they deem personally valueless, they are legally authorized to trade or sell those cards on a secondary market. On the other hand, when a user purchases a loot box, they receive only a license to utilize the virtual goods contained therein in connection with their personal in-game account.\textsuperscript{115} Thus, the items a user receives when purchasing a loot box are inalienable, as they may not be lawfully sold or traded based on their market value. Given this structure, when a player purchases a loot box and receives duplicate items or items of a rarity so insignificant that they consider them personally valueless, the player has lost the full consideration utilized to purchase the loot box. Therefore, the value acquired in a loot box purchase is unlike the value acquired in a trading card purchase, with the former more akin to traditional forms of gambling where participants run the risk of...
walking away from the transaction empty handed.

B. Chance
Gambling requires an element of chance, which is generally understood to be a lack of control over events or the absence of controllable causation.116 This element seeks to distinguish gambling activities from games of skill.117 In determining whether a certain activity is to be considered a game of chance or a game of skill, many states implement a “predominant purpose test.”118 Under this standard, an activity which may be influenced by skill is still considered a game of chance if the dominating factor is perceived to be chance.119 Other jurisdictions implement a “material elements test,” which not only analyzes the dominating factor of a game, but also takes into account whether participants are novices or experts and whether information available to contestants undermines skill-based advantages.120 Lastly, a minority of states render an activity a game of chance if chance substantially influences the outcome of the activity at any point in time.121 Based on these standards, loot boxes easily satisfy all jurisdictional interpretations of what constitutes a chance-based game.

A player’s skill or in-game performance has no influence over the items contained within loot boxes.122 Instead, the contents of loot boxes are predetermined based on statistics assigned to individual items.123 For example, in the popular game Overwatch, when a player purchases a loot box they will receive a “rare” item 100% of the time, an “epic” item 18.5% of the time, and a “legendary” item 7.5% of the time.124 Players cannot leverage their skill or knowledge to manipulate these statistics in any way and as such, a novice player has the same chance as an expert player to receive a “legendary” item when purchasing a loot box. Thus, loot boxes clearly satisfy state-wide interpretations of chance within the framework of gambling.

C. Prize
Regardless of whether a player risks or stakes some form of consideration in a game of chance, gambling has not occurred unless the player may receive a prize.125 Determining whether something is considered a prize is very similar to how courts approach “something of value” when analyzing consideration.126 Unfortunately, very few states have directly addressed whether a virtual item may be considered “something of value” or a “prize.” Instead, select states, such as Washington and Maryland, have had the opportunity to analyze virtual items within the scope of gambling loss recovery statutes.127 Whether a given state’s gambling loss recovery statute encompasses virtual items is not determinative for how virtual items will be treated in a “prize” analysis. However, these cases may provide some insight as to how individual states may treat virtual items in a gambling analysis.

The Ninth Circuit addressed the value of virtual items under Washington State law in Kater v. Churchill.128 Here, the plaintiff sought to recover the value of virtual chips lost in a mobile casino game under Washington’s Recovery of Money Lost at Gambling Act, while the defendant argued that money damages could not be recovered given the virtual chips possessed no monetary value.129 To combat this argument, the plaintiff noted that while there were no in-game functions which allowed users to exchange virtual chips for real-world currency, there were numerous third party websites that provided such services.130 The court found this argument unpersuasive, emphasizing that the sale of virtual items on a secondary market was not authorized by the game’s Terms of Use.131 The court was unwilling to conclude that unauthorized sales rendered a virtual item to be “something of value.” However, the court ultimately found that the virtual chips were considered “something of value” because they could be utilized to extend in-game play. In doing so, the court noted that Washington maintained a particularly liberal interpretation of what constitutes a thing of value, while other states may employ a more restrictive perspective.132

Although Maryland has yet to consider whether a virtual item constitutes a “prize” within the context
of gambling, the state maintains a very restrictive gambling loss recovery statute. In Mason v. Machine Zone, the plaintiff sought to recover monetary damages incurred while participating in casino-style mini-games within Game of War. Specifically, the plaintiff sought to recover the monetary value of the in-game currency she used to spin a virtual roulette wheel that awarded virtual prizes. However, Maryland's Gambling Loss Recovery Statute requires a participant to lose money at a prohibited gaming device to recover damages. In ruling for the defendant, the Fourth Circuit held there was no basis for the term “money” to include virtual gold or other virtual resources which could not be redeemable for real-world currency. Since the game only awarded virtual currency, the court reasoned that the plaintiff never had the opportunity to win money while spinning the virtual roulette wheel, nor did the defendant expect to lose money based on the outcome of the plaintiff's spin. Thus, regardless of whether the plaintiff purchased the in-game currency with real-world currency, no real-world money was directly lost while playing Game of War's casino-style mini-games.

As exemplified above, whether virtual items constitute a “prize” within a gambling context will be decided on a state-by-state basis. Similar to the differing jurisdictional interpretations of consideration, it is unlikely that a uniform perspective on what constitutes a prize will emerge. Due to its liberal construction of “something of value,” the State of Washington is likely to determine that virtual items constitute a prize. Based on their narrow interpretation of virtual items, Maryland is less likely to consider them a prize. However, Maryland may view virtual items redeemable for real-world currency on a secondary market as a “prize.” Nonetheless, it is quite speculative at this juncture as to whether the virtual items received from the purchase of loot boxes would fulfill “prize” requirements in the context of gambling. Prominent attorneys such as James Gatto and Mark Patrick believe courts are likely to conclude that standard loot box mechanics are not gambling, assuming the game operator does not facilitate the exchange of virtual items for real-world currency. On the other hand, renowned “video game attorney” Ryan Morrison has indicated that he firmly believes that loot boxes are a form of gambling. Many others have joined this sentiment, such as Marc Whipple who has expressed that a prize in a gambling analysis does not have to be money but merely something of value. Thus, it is currently uncertain whether the virtual items that loot boxes award will fulfill the prize requirements of gambling.

V. The Effectiveness of Proposed and Potential Solutions

Regardless of whether individual states will ultimately determine loot boxes to be a form of unlawful gambling, proponents of regulation continue to stress concerns over behavioral addiction and predatory marketing practices. Given the complexity of these issues, there is no uniform consensus as to how loot boxes should be regulated, if at all. Some believe legislative efforts to be the best solution, others support hands-off, self-regulation, and some advocate for a combination of these two approaches. Although, each approach entails its own set of strengths and weaknesses.

A. Loot Box Legislation

Given the parallels between loot box sales and gambling, legislative efforts to regulate loot boxes have primarily sought to impose age-based restrictions. For example, Senator Hawley’s recently introduced bill, titled “The Protecting Children from Abusive Games Act,” includes a “prohibition of pay-to-win microtransactions and sale of loot boxes in minor-oriented games.” If passed, this bill would make it unlawful for game publishers to publish, and digital game distributors to distribute, games with pay-to-win microtransactions or loot boxes if the game was oriented towards minors or if there was constructive knowledge that any of the game’s users were under 18. Violations of these provisions would be considered acts of unfair or deceptive practices enforceable by the Federal Trade Commission or state attorney general. While this bill is certainly on the severe end of regulatory actions, proponents believe such measures would be widely beneficial.
Game developers are fully aware of the predatory marketing practices they employ and how loot boxes foster behavioral addiction at an early age. While certain instances of consumer backlash have resulted in developers making favorable adjustments to specific games, loot boxes remain extremely prevalent and profitable. Given the economic incentives to maintain the current loot box structure, it is difficult to believe that video game developers will remove them in favor of a moralistic approach. Thus, harsh regulations, such as Senator Hawley’s bill, may be considered a necessary measure to ensure the elimination of loot box exposure to minors. However, this bill could also be interpreted as an unduly burdensome restriction on developers and publishers.

The Protecting Children from Abusive Games Act targets game publishers and developers who implement loot boxes in minor-oriented games. This aspect of the bill appears to be very reasonable from a compliance perspective. Not only does the bill provide an extensive list of specific factors to analyze whether a game is minor-oriented, but it is industry practice for all major video game titles to receive an age-based rating from the Entertainment Software Ratings Board. Thus, video game developers could easily predict whether a game would be interpreted as minor-oriented based on the ESRB rating. However, this bill also targets games with loot boxes where the developer or publisher has constructive knowledge that any of the game’s users are under the age of 18. This is a dangerously broad standard that arguably places extensive burdens on video game developers. Even if a video game developer or publisher were to release an “AO-rated” game, suitable only for audiences of 18+, minors would inevitably get their hands on it. In and of itself, this requirement is not necessarily an issue from a compliance perspective, but coupled with the constructive knowledge portion, it becomes one. Since constructive knowledge is the level of knowledge that a party is presumed to have following the exercise of reasonable care, this provision may put video game developers and publishers in the unenviable position of having to police their game’s audience. Specifically, many popular platforms such as Twitch and YouTube allow users as young as 13 years old to stream content. Thus, what level of popularity would a minor streaming an adult-themed game be required to have in order to be considered within the scope of a publisher’s or developer’s constructive knowledge? Imagine if the tobacco industry could be fined in any instance that they were considered to have constructive knowledge that a minor was smoking cigarettes. While the Protecting Children from Abusive Games Act may be considered to have correctly placed the responsibility of regulation on game developers and publishers, perhaps the proposed language is unduly burdensome.

B. Private Market Solutions

Some believe that legislative or judicial action is not the answer to solving the loot box controversy despite recognizing the inherent risks loot boxes present. Notably, the UK Gambling Commission conducted a study of loot boxes, which indicated the early development of gambling addictions in minors. Nonetheless, the United Kingdom has chosen not to regulate loot boxes and instead taken the position that the private industry will self-regulate. Given the past actions of developers to address identified issues with loot boxes and current efforts by other industry figures, the expectation that the private industry will self-regulate may be perfectly reasonable. Specifically, on April 13, 2020, the ESRB implemented a new warning to be displayed on all video games that contain “in-game purchases including random items.” While it is too early to determine whether this action will prove influential in addressing the concerns surrounding loot boxes, this measure is certainly one of the many safeguards that could be implemented with minimal effort.

While pressure from consumers and the new ESRB warning may help to further inform consumers of the nature of their purchases, these actions alone are insufficient in curtailing the problematic nature of loot boxes. For loot boxes to even begin to be considered kid-friendly, developments need to take place surrounding parental controls, payment methods, and disclosure. Notably, a multitude of games available
to minors do not contain parental controls that allow the restriction of access to loot boxes. In games that include some form of parental controls, studies indicate that fewer than 20% of parents utilize them.\textsuperscript{158} If video game developers truly strive to reduce the harms caused by loot boxes, implementing more rigorous and user-friendly parental controls should be prioritized. Additionally, modern games commonly allow a user to save or store their preferred payment method. This practice has resulted in numerous incidents of children incurring excessive charges on their parent’s credit card unbeknownst to them.\textsuperscript{159} While the parent is certainly responsible for at least a portion of the blame in these instances, video game developers could be more proactive by providing multi-step verification methods for microtransactions. Finally, a common complaint surrounding loot boxes is that the odds of acquiring specific items are generally undisclosed, making the parallel between loot boxes and slot-machine gambling even more apparent. Thankfully, industry figureheads such as Blizzard have declared their intent to disclose the odds of all loot box awards by the end of 2020.\textsuperscript{160} While it is too early to determine whether this goal will actually be met, it is certainly a step in the right direction towards mitigating one of the many concerns surrounding loot boxes.

C. Mixed Approaches
Perhaps the most effective solution to the dangers of loot boxes is a combined approach of legislative regulations and private-industry safeguards. South Korea has taken this position by implementing the Selection System of Game Availability Period.\textsuperscript{161} Under this framework, all gaming companies with over 100 employees and 27 million USD in revenue are required to offer rigorous parental controls.\textsuperscript{162} These controls allow parents to restrict their child’s access to certain in-game features as well as impose time restrictions on gameplay.\textsuperscript{163} Additionally, South Korea’s Fair Trade Commission has required video game developers to accurately disclose the odds of rewards offered in loot boxes.\textsuperscript{164} By imposing legislative regulations on the most prominent video game developers, South Korea has taken an approach that combines legislation and private-industry solutions. This has essentially placed pressure on both video game developers and concerned parents. However, this mixed approach does not mitigate the risks associated with less prominent developers continuing to engage in deceptive loot box practices. For this reason, proponents of aggressive loot box regulation, such as Senator Hawley, may believe further action is required.

Conclusion
The video game industry has taken the world by storm, becoming one of the most valuable and influential global markets. However, many controversies surrounding monetization practices remain unresolved. Given the apparent similarities of loot boxes to gambling and their predatory implementation, it is particularly frustrating that a workable solution has yet to be deployed within the United States. While the FTC’s recent recognition of the problematic nature of loot boxes appears promising, it is unlikely that such issues will be adequately addressed by judicial interpretation, legislative action, or private-market solutions alone. Instead, one can expect to see loot boxes methodically unpacked and repackaged by a combination of gamers, industry giants, and legal forces.\textsuperscript{165}

Endnotes
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loot-boxes-face-scrutiny-from-an-international-coalition-of-gambling-authorities/.
5. Id.
17. Yan, supra note 11.
24. Id.

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32. *Id.*

33. *Id.*


36. Overwatch Wiki, *supra* note 34.

37. *Id.*


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43. *Id.*


45. *Id.*

46. *Id.*


50. *Id.*

51. *Id.*

52. *Id.*

53. Overwatch Wiki, *supra* note 34.


56. Shull, *supra* note 44.

57. Natasha Lomas, *Loot Boxes in Games are Gambling and Should be Banned For*


59. Id.

60. See sources cited at note 8.


64. Id.


66. Id.

67. Id.


72. Id.


74. Id.

75. Id.

76. Id.


80. USA State Casinos supra note 78.

81. infra note 84, 86, 88, 90.

82. Id.


84. NEV. REV. STAT. § 463.0152 (West 2018).


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90. WASH. REV. CODE § 9.46.0237 (West 2018); State ex rel. Evans v. Bhd. of Friends, 41 Wash. 2d 133, 150 (1952) (“[A]ll forms of gambling involve prize, chance, and consideration . . .”).

91. 38 AM. JUR. 2D Gambling § 2.
92. Id.
94. Yellow-Stone Kit v. State, 88 Ala. 196 (1889).
98. supra note 93.
100. Vacco, supra note 97.
101. Schreier, supra note 63.
103. Id.
104. Id.
105. Id.
106. Id.
107. Id.
110. Id.
111. Id.
112. Id.
115. Id.
116. 38 AM. JUR. 2D Gambling § 2.
118. See, e.g., In re Allen, 377 P.2d. 280, 281 (Cal. 1962) (en banc) (“The term ‘game of chance’ has an accepted meaning established by numerous adjudications. . . . The test is not whether the game contains an element of chance or an element of skill but which of them is the dominating factor . . . .”).
119. Id.
122. Barber v. Jefferson County Racing Ass’n, 960 So. 2d 599, 609

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124. Overwatch Wiki, *supra* note 34.

125. 38 AM. JUR. 2D Gambling § 2.


129. Id.

130. Id.

131. Id.

132. Id.


135. Id.

136. Id. at 317.

137. Id.

138. Id.

139. Id.


141. Ryan Morrison, *I Am A Video Game Attorney (it’s really still a thing, I swear) who has helped thousands of game studios and professional esports players navigate everything from their contracts to their intellectual property. If it exists in digital entertainment, I’ve dealt with it. AMA*, REDDIT (Jan. 31, 2019), https://www.reddit.com/r/IAmA/comments/alr32/iama_video_game_attorney_its_really_still_a_thing/.


143. See sources cited at note 8.

144. Id.

145. Id.

146. Id.


149. See sources cited at note 8.


151. See sources cited at note 8.


154. GAMBLING COMM’N., YOUNG PEOPLE AND GAMBLING REPORT 2017 at 22 (U.K).

155. Id.

156. Id.


158. Jo Thornhill, *With Children Off School and Gaming Online*,

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162. Id.
163. Id.

164. Charlie Hall, South Korea Fines Game Companies Close to $1M Over Loot Crates, Polygon (Apr. 10, 2018), https://wwwpolygon.com/2018/4/10/17219006/loot-crate-south-korea-fines-nexon-one-million, (game developers—like Nexon—stated that items were given out “at random” while odds of certain items were closer to 0.5%).

165. This paper would not have been possible without the help of my assistant and good friend Manuel Vasquez.
Punishing Live Streamers for in Game Sounds and Music Does Not Help Anyone

By Sandy Rokhlin

Sandy Rokhlin is a rising second year student at the George Washington University Law School with a background in visual art and video game music composition. She is a longtime fan of video games and has always been inspired by creators like Tim Schafer and Darren Korb. In law school she has enjoyed competitions and has become the Cochair of Mediation for the Alternate Dispute Resolution Board. Currently, she is working with the Patent Arcade (www.patentarcade.com), which posts about video game news, patents, trademarks, and copyrights twice a week. She is largely interested in animation, video games, music, and visual art and hopes to represent artists and creators in the future.

Game live streaming and streaming have grown in recent years and proven to be profitable for both streamers and game developers. At the same time, streaming platforms have grappled with Digital Millennium Copyright Act (DMCA) claims flooding their platforms, claiming infringement from game streamers. In response these platforms have punished and banned streamers who have little idea of what they did wrong and little to no understanding of the DMCA or copyright laws. Streamers lose their income, streaming platforms get criticized on social media, record labels are villainized, games lose their promotion, and no one wins.

The DMCA and the Different Service Providers
The DMCA is something many creators and viewers of internet content, particularly gaming content, are at least vaguely familiar with. The DMCA is a 1998 copyright law designed to comply with the 1996 World Intellectual Property Organization Copyright Treaties. It aims to stop circumvention of copyright protections and update copyright law for the internet age. Among streamers, the DMCA is something to be carefully avoided as it could quickly end a streaming career.

YouTube (www.youtube.com) was the first video sharing service to take off in 2005, quickly blowing up with 30,000 daily users within mere months of launch. As the amount of content uploaded to YouTube quickly became insurmountable, copyright and DMCA issues started to appear. The first was an SNL video called “Lazy Sunday” which went viral and was watched on YouTube millions of times. NBC asked YouTube to remove around 500 clips of NBC content, which YouTube complied with, and NBC made Lazy Sunday available on iTunes for a small fee or free on its website. Following this, YouTube encountered a swath of copyright claims and lawsuits, but ultimately the DMCA protected the website.

Title II of the DMCA includes a safe harbor provision for service providers like YouTube, meaning that they are not liable for what users upload to their platform so long as they follow certain guidelines. To successfully invoke safe harbor, a service provider must prove that it,

(A) (i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which
infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.”7

If service providers follow these rules, they can avoid liability for their users’ actions. This also means that big companies and record labels have a harder time reaching the deep pockets of service providers with DMCA claims, but a much easier time reaching the content creators.

The NBC takedown was not the end of copyright difficulties for YouTube. In 2007, Viacom and various film studios sued YouTube and Google for copyright infringement for nearly 8,000 clips between 2005 and 2008, saying that YouTube was not giving due diligence in removing copyrighted material on their platform.8 The district court found for YouTube, and the Second Circuit affirmed that actual knowledge or awareness of infringement was needed to block a service provider from the DMCA’s safe harbor.9 The parties settled before Viacom made a second appeal.10 On the first appeal, it was also affirmed that finding safe harbor applicable to a defendant necessarily precludes all claims of monetary relief.11 Thus, it is in the interest of service providers to maintain their ability to claim safe harbor at all times. This is why, to the frustration of viewers and creators, service providers like YouTube are quick to remove content at the slightest indication of copyright infringement. This is also why the harm of copyright claims falls onto content creators.

YouTube, though sixteen years old, is still navigating issues with stopping copyright infringement on their platform. So it is unsurprising that newer service providers run into the same issues that YouTube still grapples with on a daily basis.

Live streaming has recently become widely popular, with gaming dominating the scene, and with it more DMCA issues have arisen. Though YouTube had started the process to implement live streaming, the live streaming of video games became popularized shortly after the launch of Twitch (www.twitch.tv) in June 2011.12 Many live streaming platforms have come and gone because of the difficulties in profiting off of the format, but there are three main platforms today: YouTube Live, Twitch, and Facebook Gaming.13 Each of these platforms has developed different strategies for avoiding harm from the DMCA and each has run into their own problems and criticisms.

YouTube has two systems, Content ID and copyright strikes.14 Copyright strikes are used by most live streaming platforms and usually follow the ‘three strikes and you’re out’ rule. When a video on YouTube receives a copyright strike, it is removed.15 Alternatively, the Content ID system allows the owner of the copyright more choices than just removing the infringing video.16 The copyright holder can choose to allow the uploader to remain copyright strike free and leave the video online but claim any monetization on the video for themselves.17 This method is beneficial because it is less harmful to a creator that was innocently or mistakenly infringing and allows the owner of a copyright like a video game to promote their product.
In what are likely attempts for a competitive edge, Facebook Gaming has taken some contrarian methods to running their streaming platform, potentially signaling what the future of streaming may look like. Facebook Gaming, unlike its streaming platform counterparts, allows its partnered streamers to play copyrighted music in the background of their streams. Facebook managed this by partnering with a handful of the largest record labels in the world, including Universal Music Group and Sony Music Entertainment, but the specifics of this deal are unclear. For this to work the music must not be the central focus of the stream, just the background, and the music is not protected in a separately edited and uploaded video on demand (VOD). This does not apply to all copyrighted music, so the platform will indicate to a streamer when they are playing something they are not entitled to through Facebook’s deal, and mute that part of the stream in the VOD. Also unlike other platforms, Facebook Gaming allows streamers to play music from their source of choice and has no in-service music integration. This feature is currently only available to Facebook Gaming Partners, but Facebook intends to extend it to their second tier of streamers soon.

Twitch streamers violated copyrights for a long time with no repercussions, building up the habit of turning on whatever music streaming service they wanted when they would go live. Recently there was an influx of DMCA claims on Twitch, raising claims from less than fifty a year to thousands in a week. Twitch has tried to be transparent with its streamers since all this began. The golden rule is to not use copyrighted music in streams, but in some instances, this may be harder than it seems. Some streamers have received DMCA strikes over VODs and clips that are years old, effectively a ticking time bomb that streamers did not know they could be punished over. So Twitch has spent much effort in educating its users on how not to infringe copyrights through blog posts and transparency, one main piece of advice being to turn off music in games. Twitch also provides streamers technology to self-regulate against copyright infringement. Twitch released a function in Open Broadcasting Software (OBS) which allows music played live to be replaced when streams are saved as VODs, and Soundtrack by Twitch which, according to Twitch, is a fully licensed service to provide music for streamers.

However, in October 2020, Twitch received a letter from the Recording Industry Association of America (the RIAA) accusing Soundtrack by Twitch of making unlicensed music available to its streamers, among other claims of Twitch failing to respect copyrights. The RIAA letter concluded that fair royalties on a growing platform like Twitch could be the difference between life and death for songwriters and performers. Twitch responded to the letter saying it had the proper licenses, always responded properly to valid DMCA claims, and were proud to support music creators. The chairman and CEO of the RIAA, Mitch Glazier, then called out Twitch’s shifting of responsibilities to its users as not being the sign of genuinely wanting to partner with creators, and, saying that this shifting of blame is why a coalition of record labels was necessary to call out this behavior.

The sudden increase in DMCA claims on Twitch likely reflects a tactical move from record labels. Since the DMCA safe harbor protects Twitch so long as they follow the rules, it is in the interest of record labels to make them hard to follow. One way to make the rules harder to follow is to make it difficult to respond to claims in a timely manner by issuing them in hoards, as was seen with the thousand issued yet again in May of 2021. On the other side, most streamers’ VODs are not big money makers, so claiming the royalties off of just one video is much less profitable than claiming thousands. It is likely that a record label will make these thousands of DMCA claims to reap the monetization of the VODs, while hoping that Twitch fails to respond to all of them in a timely manner. Record labels understand that the money they seek is not in the hands of streamers but may not have a choice in the pockets they can reach for, due to the DMCA.

Record labels, publishers and the RIAA have oft been villainized by online gaming communities, but they
are protecting interests of music creators. The RIAA is organized around protecting legitimate rights of music creators and do not desire to attack streamers. Without the RIAA and music publishers, music creators would be unable to stop or even detect many instances of infringements and their music would be significantly less profitable because of creator’s inability to broadly enforce their rights. The wide reach of larger groups, though harmful in individual instances to unsuspecting gaming streamers, protect a huge community of creators. Music is extremely culturally important and has had rights around it grown and developed for hundreds of years. Streaming is a new creative art and the rights around it are still in their infancy, and though streamers have taken the brunt of the punishment, none of these parties have sought to harm streamers; the RIAA wants to protect its creators and service providers do not want to pay huge sums of money. Because of the nature of the parties of the DMCA, gaming streamers have been caught in the middle of disagreements between more sophisticated parties unable to negotiate.

Streamers and Money
For many, streaming is a great source of a secondary income or a way to show off something they are good at. The chess world champion, Hikaru Nakamura, for example, has his own channel on Twitch, GMHikaru (https://www.twitch.tv/gmhikaru), where he streams for hours nearly every day.

To make money off of streaming, the number one thing a streamer needs is viewers. Top streamers like xQcOW (https://www.twitch.tv/xqcow) and TommyInnit (https://www.twitch.tv/tommyinnit) have millions of followers and average over 100K viewers every time they stream. YouTube had already implemented monetization for creators by the time they introduced live streaming, so YouTube eventually extended that monetization to live streaming through ads.

All live streaming platforms offer ways for streamers to make money, which are usually similarly designed. For example, there are three main ways to make money on Twitch. The first is donations, which any level of Twitch streamer can make but are inconsistent. The second is subscriptions, which a streamer has to at least be affiliated to receive and is a system of viewers paying streamers. To be an affiliated streamer one needs 50 followers, 3 or more average concurrent viewers, 500 logged minutes of streaming within the last 30 days, and at least seven unique days of broadcasting logged. Once affiliated, a streamer can make money off of subscriptions, and to a lesser extent off of game sales and bits, which are an emoji currency users can send to chats of live streamers. Usually only a fraction of total followers of a streamer are subscribers. xQcOW, for example, has just over 80K active subscribers, which is a very small portion of his 5.83 million followers. On Twitch 50% of subscription revenue goes to the creators, where Facebook Gaming has temporarily made it so 100% of subscription revenue goes to streamers, likely for a competitive edge. Lastly, the small percent of streamers that become Twitch Partners, the highest level of streamer at Twitch, make a portion off of the ad revenue from their streams. The vast majority of people live streaming make a negligible amount.

Money from streaming is inconsistent, with a streamer on Facebook Live recently reporting that one month his revenue dropped to one fifth of the average total he had been making. Despite the lacking nature of income for streamers, the DMCA safe harbor means streamers are the only entity that can normally payout for infringement claims. A streamer could spend six hours streaming non infringing content and a few seconds of a copyrighted sound effect could render those hours incomeless. This means that an already shaky income can be even more perilous, especially for gamers who spend hours streaming every day.

How Copyrighted Sounds Get into Games
With the recent influx of DMCA claims on Twitch, a strange variety of sounds have been revealed to provoke copyright strikes. As of January 1, 1978, sound recordings (made that date and beyond) became
eligible for copyright. More than just sound recordings of music, this included sound effects. When streamers received copyright strikes over sound effects, even after listening to instructions to mute their game music, there was a lot of backlash on Twitter. Twitch apologized and has made efforts to be more transparent with its users, but because of safe harbor these claims will always fall on streamers.

There are two main ways games get their soundtracks and sound effects; licensing already existing audio or hiring someone to make it for the game. When someone is hired to make music or sound effects for a game and is paid to do so, this is known as a work for hire copyright. A work for hire copyright means that the listed author on the copyright is not the person who actually created it, but the entity who hired them. The copyrights also belong to the hiring entity. This means that if the publisher wants to allow streamers to play or view its games, and the games include sounds or music created on a work-for-hire basis (by that publisher), then that game footage can be streamed complete with the sounds and music in the game.

If the developer or publisher of the game wants to incorporate already existing music or performances, then that music or performance must be licensed. Licensing music that already exists for use in a game can require two licenses, a sync license (for the music itself or publishing rights) and a master use license (for the original recording, or the performance of the music). A sync license is given by the copyright holder, to someone like a game developer, for synchronizing their music to visuals. A sync license does not give the right to the original sound recording, but allows use of the base song concept like a cover. A master use license would allow use of the original sound recording; the exact audio of a famous recording heard on the radio, for example. These licenses usually include rights to use the music promotionally, such as in-context use on websites, promotional events, conferences, and tradeshows.

The negotiations for each individual song and game are varied, and the best way for a streamer to understand what they are allowed to show is to read the end user license agreement of each game they wish to stream.

Streaming Benefits Developers
Recently games like Among Us have owed their success to live streaming. Among Us became a household name and a worldwide hit following popularization through live streaming, two years after the game’s release. The streamers who played the game, and still play the game, promoted it. Streams have not been considered promotion, as foreseen by a sync license, but likely should be. Functionally, live streamers promote games and streaming can change the popularity and success of a game drastically. Viewers of streams often purchase games they watch themselves. This was seen with Among Us, and similarly Valorant, which distributed access keys to their closed beta to viewers watching streams of Valorant gameplay. Even recently, Capcom gave some popular streamers the chance to play Resident Evil: Village before release to promote the game. Live streaming, at least by streamers of a certain level of viewship, promotes games and should be covered by sync licenses.

Game developers and publishers that do not see streaming as something beneficial for their game, or even worse, issue copyright strikes against people playing their game, are shunning their players, fans, and potential buyers. There is an argument to be made that individuals watching streams may not be buying the underlying games, but it is hard to argue that the viewers are having the same experience as if they had bought it. Equally, there is a difference between someone just streaming the game as played and someone recording their face, commentary, and reactions (as the vast majority of popular streamers do). Game publishers are in their right to not want their games streamed but if that is their desire, it should be on them to make it extremely clear to players. Making this abundantly clear, if it matters to the game developer, is not burdensome to the developer. For example the publishers of Overcooked, Ghost Town Games, wanted their players to know that they were allowed to use images or footage of the game however they want, so the very first screen that appears when the game is loaded says: “Please feel free to
use any video footage or screen captures of the game in whatever way you like.”\textsuperscript{67} Similarly, games like \textit{Fortnite} which are popularly streamed, but sometimes include copyrighted audio, offer an in-game option to turn off licensed audio.\textsuperscript{68}

The implication of taking the entire revenue of a stream or video because of a song or thirty seconds of audio, is that the creator owes the entire worth of the video to that audio. This is the same as arguing that \textit{GMHikaru} is successful because of the B4 square on the particular chess board on which he plays. Punishing good faith behavior of streamers by bringing them one third of the way to total loss of streaming income is ineffective in stopping streaming of copyrighted audio in games. It is ineffective because punishing one streamer can send waves through a fan community and cause massive social media backlash while not addressing anywhere near the total number of people streaming copyrighted audio in a game. It might be effective to punish streamers who turn on Spotify, but for game streamers it just generates distrust and dislike from streamers and viewers towards the game that, in their eyes, punished them. Especially when streamers think they are compliant by muting the music of a game but get a strike anyway from the sound effects.

Unfortunately, some games are more stream-friendly than others. The chess champion can stream relatively fearlessly because chess is not music or sound effect dependent. The \textit{Beat Saber} world champion, or \textit{Just Dance} world champion are not as lucky because these games necessarily include copyrighted music because they are designed around it. But there is very likely both a desire from someone who is good at something to share it, and a desire from viewers to see this high level of talent. Certainly, there is a counter-viewpoint that it should be on the publisher to negotiate streaming upfront with these sorts of games, but as it stands such games are to be streamed at one's own peril.

\textbf{The Sound of Gaming}

Is \textit{Tetris} the same without the theme? Would \textit{Mario} games have been as popular without those seven classic notes at the beginning of the theme or without the “ba-ding” noise of collecting a coin? Often game soundtracks are designed in tandem with a game and are an important part of the game. The developer Supergiant and their in-house composer Darren Korb are a great example of that. The soundtracks from Supergiant games boast millions of plays per song on Spotify alone, and most reviews of Supergiant games rave about the music.\textsuperscript{69,70} Similarly, many games are incomplete without their sound effects which give players direction and even feelings of accomplishment. Many shooters require directional sound for players to know where enemies are and the crescendoing, accelerating theme of opening a chest in a \textit{Zelda} game changes the feeling of acquiring an item entirely. Games are incomplete without their music and sounds.

\textit{Roblox}, a game that allows its users to design games within it, even instructs users that sounds and music are important in bringing life to games.\textsuperscript{71} To allow their users to do so, audio files can be uploaded in exchange for in-game currency, Robux, and either implemented into a player's design or played through speakers that a player's avatar carries.\textsuperscript{72} In June of 2021, 28 record labels and music producer Deadmau5 sued the Roblox Corporation for a gargantuan number of copyright infringements, seeking no less than $200 million dollars.\textsuperscript{73} \textit{Roblox}, in this context, is a service provider to its users and it is likely it will invoke the DMCA safe harbor protections. That said, because the game is designed for children, \textit{Roblox} reviews every audio submission to ensure it is child appropriate, and this review may preclude safe harbor.\textsuperscript{74,75} This lawsuit is indicative of a need for negotiations between service providers and music publishers, like we have seen with Facebook Gaming.\textsuperscript{76} \textit{Roblox}, unlike Twitch and other service providers, will have a lot of trouble shifting the blame on their user-base of children. Roblox will likely try to argue that it is not the actual infringer but its method of reviewing content on its service may make escaping liability harder. Ultimately this lawsuit could help further legally define when service providers are liable
A shift in accountability has been needed for some time, and a shift towards negotiations between record labels and service providers may be coming. Record labels, streaming platforms, and game developers/publishers all understand that the sound of games is essential to success, and these three sophisticated parties should be responsible for organizing the copyrights around streaming because streamers have been punished for the lack of coherent agreements between these parties for too long.

**Streaming Games is Promotion and Punishing Streamers for it is Harmful**

Streamers ultimately promote games through their streams and forcing streamers to entirely mute the audio of a game can curb the benefits of the promotion. Fans might miss a chance to resonate with a particular song or sound effect in a game or even not watch a playthrough from their favorite streamer because it feels awkwardly silent. Fans are attached to their favorite streamers and might choose to not buy or play a game because it harmed their favorite streamer with a copyright strike. Fans come to a stream for their favorite streamer and discover games through streams. Massive streamers do not owe their viewership or earnings to audio in games and record companies do not gain much profit from any one DMCA claim. Big gaming streamers hold the eyes of a curated gaming audience, promoting the games they play, and providing game developers and publishers a willing audience for their games. Even further, games and streams of games with game audio bring an audience to the music featured within.\(^7\) Game live streamers should be covered by sync licenses as promotion, or at the very least streamers should not be punished over audio that is necessary to play the game. Streaming should be something negotiated around in licensing game music so everyone including the music creator can benefit from streaming. If game publishers agree to disallow streaming of the audio of their game, or even streaming the game entirely, it should be on them to make it clear before streamers have their income jeopardized. It should be on the sophisticated parties, the service providers and record labels, to negotiate rights in a way that does not unnecessarily punish people who are ultimately promoting games and music. Gaming streamers are a wealth of promotion and punishing them for simply playing a game as purchased benefits no one.

**Endnotes**

2. *Id*.
5. *Id*.
9. *Id.* at 30.
11. *Viacom Intern., Inc.*, 676 F.3d at 29.


15. Id.

16. Id.

17. Id.


19. Id.

20. Id.

21. Id.

22. Id.

23. Olebe, supra note 19.


25. Id.

26. Id.


28. Id.

29. Id.

30. Id.

31. Id.


37. Id.

38. Id.

39. Id.

40. Id.

41. TwitchTracker, supra note 35.


43. Twitch Partner Program, supra note 37.


46. Id.


48. Signh, supra note 46.


51. Id. at 1.

52. Id. at 1.


55. Copyright Alliance, supra note 54.

56. Id.

57. Ombler, supra note 55.

58. Mat Ombler, How to get your music placed in a video game, GAMESINDUSTRY.BIZ (Feb. 17, 2021), https://www.gamesindustry.biz/articles/2021-02-17-how-to-get-your-music-placed-in-a-video-game.

59. Music-Related Copyright Claims and Twitch, supra note 25.


62. Id.

63. Rodriguez, supra note 61.


66. Clark, supra note 62.

67. OVERCOOKED, (Ghost Town Games Ltd. Aug. 2, 2016).


73. Id. at 5.


75. ABKCO Music Inc., No. 2:21-cv-04705 at 5.

76. Olebe, supra note 19.

77. Korb, supra note 70.
X-Stream Consequences: Hollywood’s Changing Deals and Economics

By Peter Dekom

A graduate of Yale University and the UCLA School of Law, Mr. Dekom has been honored by the Beverly Hills Bar Association and the Century City Bar Association as the entertainment lawyer of the year, as well as receiving the ABA Entertainment and Sports Forum’s highest entertainment lawyer honor, the Ed Rubin Award.

The Day-to-Day Realities of living in a consolidated film, television, and digital media universe.

“Netflix was a revelation when it came on the scene. It offered seemingly endless options, since there was no competition for the rights to stream big studio hits. And the convenience of no longer having to rewind and drive to return tapes was irresistible. But these days, increased streaming options (as well as fears of another recession) has consumers questioning the rationale of paying for multiple streaming sites.

With stalled subscriber bases, the pressure is mounting for executives to pick the next big thing. And that heightened pressure, along with slashed budgets for experimentation, has executives more risk-averse than ever. That’s why we’re no longer in a golden age, but instead stuck in an era of prequels, sequels, and reboots. . . . This is not to say there’s no original content. But truly original, unproven work is few and far between.

At its peak, Netflix was spending about $17 billion a year on content development. With these budgets, up-and-coming creators had a chance—albeit a slim one—of breaking through and selling projects. But that’s no longer the case. The economics of subscriptions don’t justify those development budgets anymore. Add to that the fact that streamer deal terms are getting less favorable by the day, with a cost-plus model becoming a norm that reduces upside by 90% for a second season due to eliminated backend participation. At a recent industry conference, entertainment executive, producer and investor Jeff Sagansky slammed the trend, saying the deals that writers, directors and actors ‘are being forced to sign’ are ‘brutally unfair’ and ‘ridiculous.’”

I. Consolidation

Media monsters have been part of the entertainment industry for a long time. Studios have long been corporate assets that have been bought, sold, merged, and combined with significant impact on competition. Over the years, aggregated assets and the “long tail” have trumped annual earnings and cashflow values. Government merger/acquisition (M&A) limitations, including, divestiture, or blocking ownership and control have been occasional if not profoundly impactful, usually the result of SEC merger conditions, administrative rulemaking, or actual litigation. M&A has involved every major studio and network, a pile of minimajors with a litany of outsider names like Seven Arts, Matsushita Electric Company, Sony, Seagram, Vivendi, Comcast, AOL, NewsCorp, Discovery, and Amazon. You can add mergers between already large talent agencies (for example, William Morris and Endeavor in 2009, CAA and ICM in June 2022) to the list as well. Indeed, federal antitrust enforcement has apparently become a thing of the past. Or has it? The Federal Trade Commission seems to have perked up its ears when
online retail/streaming giant, Amazon, purchased one of the smaller “major studios,” MGM. We’ll see. However, the markets abound with the spoils of failed entertainment mergers. Two of the industry’s most spectacular failures sting fresh in recent memory.

First, AOL’s acquisition of Time-Warner in 2000 for $162 billion spun share values downward so fast that by 2009, Time-Warner was forced to spinoff AOL into a separate entity, ultimately purchased by Verizon in 2015 for $4.4 billion in 2015. Verizon then added Yahoo two years later for $4.5 billion. That didn’t work either. In 2021, Verizon sold its AOL and Yahoo properties to Apollo Global Management, a private equity fund, in a deal said to be worth $5 billion, about half of the nearly $9 billion Verizon originally paid for the pair. Verizon maintained a 10 percent stake in the new entity, which traded only under the “Yahoo” name. Look at the fall.

The second big bust began in 2018 as Time Warner faced another acquisition, this time by telecommunications giant, AT&T (which also controlled DirecTV at the time), for an effective $85 billion price tag. Engineers dreaming of technology and telecom subscriber synergisms with a content company found themselves riding the bucking bronco of creative people pursuing their artistic visions. These top-down logicians dictated policies and mandates into content creation that plunged Time Warner (rebranded “WarnerMedia”) creative executives’ morale through the floor. Then, AT&T management installed very young senior executives with limited experience in big budget content over seasoned professionals, many of whom left or were fired in droves. New media was “in;” stories and art reduced to commodities.

The stock market viewed this merger unkindly, focusing on the seeming failure of the HBO cable company and streamer HBO Max to achieve predicted subscriber growth. To ignite more subscriptions, WarnerMedia literally dumped its expensive theatrical features, stalled by the pandemic, into its streaming operations, a move that rattled Hollywood and forced the studio to write big checks to major talent in those films.

By 2021, AT&T realized its inability to tame that gyrating horse. In record time, AT&T transferred ownership and control WarnerMedia to Discovery Inc.: “AT&T [unwound] its $85 billion acquisition of Time Warner, which closed just under three years ago [in 2018] and form[ed] a new media company with Discovery. The deal [created] a new business, separate from AT&T. . . . [under which AT&T] receive[d] an aggregate amount of $43 billion in a combination of cash, debt and WarnerMedia’s retention of certain debt. AT&T shareholders [received] stock representing 71% of the new company, while Discovery shareholders would own 29%, it added.” Purged of former senior leadership (notably WarnerMedia chief Jason Kilar and Ann Sarnoff, head of Warner Bros.), the actual merger between AT&T and Time Warner closed at noon on April 8, 2022, almost a month after online retail giant and online network, Amazon, closed its $8.5 billion acquisition of MGM. The formal name? Warner Bros. Discovery Inc. The film and television divisions acquired new executive management, and likely more heads will roll.

Feeling the pressure to control an increasing array of content that executives viewed as essential to survival in the streaming race, Disney acquired 21st Century Fox’s film and television studios, cable entertainment networks, and international TV businesses (NewsCorp retained the network and related assets) in a $52.4 billion deal effective March 20, 2019, becoming one of the largest entertainment conglomerates on earth. But even “bigger” lurked under the mantle of organic growth—building a streaming network from within.

And while Apple may not be the biggest and baddest player in the filmed entertainment mix yet as it’s relatively smaller than its mainstream competitors,

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Apple can continue to throw money at its TV service indefinitely; it could easily afford to never make any money from TV+ and simply run the service as a kind of brand-marketing project. The company’s revenue was about $366 billion in fiscal year 2021. Netflix’s revenue last year was just under $30 billion — about 8 percent of Apple’s. . . .

All of this would seem bad—bad in an antitrust, massive-corporations-gobbling-up-everything sort of way. Netflix and Spotify remain thriving companies, but it just does not seem fair or conducive to competition for Apple to leverage its dominance in one market, smartphones, to get ahead in other markets, like the music and movie businesses. It’s especially troublesome when you consider all the onerous rules that Apple imposes on its rivals through its App Store. For instance, it generally takes up to a 30 percent cut of revenue that app makers collect through in-app purchases. Apple’s own apps don’t have to worry about such concerns.11

If the entertainment world is reconfiguring now, is this about to be the “Big Time of Apple Entertainment”? Continue to grow organically . . . or buy something?

During all of these recent M&A/organic growth machinations, the world struggled with the pandemic, which trashed in-person attendance in movie theaters. Theatrical release of motion pictures may never return to normal, as post-pandemic box office numbers show a continued and substantial decline in revenues compared to prepandemic levels. For the most part, simultaneous (“hybrid”) actual or near-time day-and-date release of theatrical features produced disappointing numbers and at least one memorable lawsuit that ultimately settled.12 Many argue that, despite occasional successes of franchise films like Top Gun: Maverick, theatrical release is no longer a primary revenue-generating force in the entertainment industry, a delivery medium further slammed as China has slowly pushed American content into a second and vastly less lucrative tier.

The resulting corporate consolidation (studios and networks, often under common ownership), combined with what seems to be a paradigm shift for theatrical motion pictures accelerated by the pandemic, seem to have imposed a new economic reality on talent and content creation investors. And it ain’t over yet. Just in streaming: “There’s Disney, HBO Max, Netflix, Amazon and Apple — that’s five,’ said media analyst Michael Nathanson, pointing to the leading streaming services. ‘You don’t want to be in position six, seven or eight. At some point, they’ll say, “We have to find a dance partner.”’”13 Dance partners? Joint ventures or actual mergers? Obviously, the new big bad boy in town was and is The Streamer.14

II. Screaming at the Streamers
As noted in detail in the litigation contained in the endnotes, talent and off-balance-sheet investors relying on the prepandemic economics of theatrical releases (with all their aftermarket windows and ancillary rights) are finding a new reality. With a few “franchise-escapist” exceptions, traditional theatrical fare is not faring very well in traditional big screen exhibition. That bad boy has redefined the audio-visual content production and distribution business. To most practitioners in film, television, and digital media, the big bucks and the future seem to belong to the big corporations with the biggest streamers, although there are a few warning flags discussed below. As for television viewing, however, the “cut-the-cord” trend continues to erode traditional television while growing streaming.15

Major “creative content” streamers are trying to build new businesses. Their goal is to expand and solidify their subscriber base, which ideally translates to consistent monthly revenues. Meeting this target often requires exceptional and desirable content—much of which is very, very expensive to produce—and is not reliant on any one series or standalone production. They need high production values, often well-known underlying rights, and recognizable talent in these productions to attract subscribers—all of which costs
money. So, noting that their success is based on overall subscriber levels, streamers are willing to produce what would in other industries be intentional “loss leaders”; they are loath to reveal the success of any one production and its impact on subscriber growth. They want to grow; those “losses” are effectively investments in a new business. And businesses are evaluated on actual or projected earnings. Those with major streaming assets want to own those businesses themselves, without partners.

The two largest streaming providers, Netflix and Disney, have faced serious declines in share values, although a more diversified Disney has recovered most of its lost value, at least until it was slammed again by punitive legislative measures against as part of a GOP culture war with the Mouse House. Netflix, on the other hand, has not been so fortunate.

Netflix’s first quarter 2022 results revealed a real contraction in subscribers (with a projection of serious additional shrinkage in the immediate future), and the stock price plunged again, from a market cap of about $300 billion in November of 2021 to $97 billion by the following April. This fall occurred as Netflix raised rates and pressed to hold those sharing passwords financially accountable—conincidence? The streamer is experimenting in smaller Latin American markets by adding small monthly charges for those who share passwords. Having announced an agreement with Microsoft on July 13, 2022, Netflix is exploring how to implant an AVOD (advertising-based video on demand, or “AVOD”) tier to stem subscriber losses. All this as Americans were facing the worst inflation in half a century. Was streaming falling victim to consumers’ economic fears? Perhaps, with this being but one of the many variables impacting Netflix.

As the April 19th FastCompany.com notes: “[C]ompetitors have been springing up left and right, eating into Netflix’s market share at a time when inflation-weary consumers are becoming more price conscious. . . . Boasting 222 million paid users, Netflix does still lead the streaming pack. Disney is on its heels with 196.4 million between Disney+, ESPN+, and Hulu; it’s targeting up to 260 million by 2024.” As Netflix’ share price hit $173.10 at market close in early May of 2022, down from a peak of $700 a share in November 2021, Wells Fargo analysts stated that Netflix’s outlook is now “clear as mud.”

Some pundits have argued that with major entertainment companies pursuing the holy grail of streaming and now apparently coming back to the legacy model of advertising-supported television, this entire process seems like both traditional and new-model companies have effectively engaged in an “emperor’s new clothes” pattern of mutually assured destruction. CNBC’s Alex Sherman writes: “We must be living in the Upside Down. Legacy media has disrupted Netflix.” Netflix’ plunge was also linked to overspending on many productions, with the company spending as much as a purported $30 million per episode on Stranger Things: “The streaming giant ran up a huge bill over the past several years as it expanded across the globe and produced a mountain of programming, prioritizing growth over cost efficiency. Now the company is imposing more financial discipline, according to senior executives.”

There are other major streamers in this space, most notably premium video on demand (“PVODs”), of such creative content, including the recent entrant Warner/HBO Max. Indeed, Warner Bros. sacrificed its theatrical line-up during the pandemic to build viewership in its streamer, a truly expensive decision. But is theatrical screening threatening a comeback dominance?

But maybe, Toby Emmerich [Warner Bros. theatrical chief before he was let go in June of 2022] and his Warners team are thinking, now is the time to invest a bit more money into [as pared down budget for streaming] Batgirl, perhaps up the visual effects and the music budget and the planned marketing spend, and give the movie a theatrical run first? After all, it’s a new day under Warner Bros. Discovery C.E.O. David Zaslav. The Batman, admittedly the company’s marquee superhero

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property, is putting up huge numbers on Max, I’m told, even after generating $750 million in theaters over 45 days (or, perhaps, because it generated those numbers). And, more importantly, the Great Netflix Correction of ’22 is causing Warners and all of Hollywood to rethink the ‘all-in’ strategy for streaming.25

However, the industry still seems to adhere to the belief that only large-production value franchise entertainment can make sense on a big screen release.

Zaslav has suggested that sacrificing costly theatrical blockbusters to direct telecast on HBO Max is no longer a viable business model.26 His studio neighbor, Paramount, would seem to agree.27 At least franchise, theatrically-targeted blockbuster appear to enjoy a very vibrant life-after-pandemic upside. For those with mega bargaining power, the numbers may be less that the older $20 million against 20% percent of what we know as “first dollar studio gross” because of increased production costs, but that formula is still alive and well at a reduced level. That is, if you have the power to reach these numbers.

With a record-breaking $156 million (box office) 2022 Memorial weekend opening wide release (4,735 screens), Top Gun: Maverick was ready to make star Tom Cruise a much richer man:28

[His] $12.5 million upfront, according to multiple sources close to the negotiations—but that’s Starbucks change compared to the real value. He’ll earn more than 10 percent of first dollar gross, with escalators that increase the percentage as the movie makes more money. Remember, that’s a dime for every dollar that Paramount takes in, not the total box office collected by the theaters. Studios generally negotiate for a little more than 50 percent of domestic revenue (Disney, with its market power, can get more), a little less than 50 percent internationally. There are limited ‘off the top’ deductions from the ‘first dollars,’ like for residuals, but they don’t fundamentally change the calculation. That’s in contrast to the more typical ‘net’ or ‘cash break’ deal, where the studio makes its money back first, then the talent participant gets a taste. Or, more common these days, bonuses for pre-set box office milestones.29

While Amazon bought MGM, which still contemplates some theatrical releases, Amazon’s streaming service seems to be alive and kicking. Amazon’s PVOD service uses a different model, based on people using Amazon Prime retail membership, without a separate allocation for the streamer network itself. On the other hand, Hulu seems to have achieved a small but more edgy following. Broadcast network streamers—Comcast’s Peacock tied to NBCUniversal and Viacom’s Paramount+ (once CBS All Access)—are struggling to find a path to a sustainable audience reach; these networks have big libraries but not enough new, original, high-profile content. Apple TV+, even with an Academy Award for best picture, is still relatively small but rising fast. Will Apple TV+ rise faster with the addition of a ten-year global exclusive license for Major League Soccer, announced on June 14, 2022, to its existing Major League Baseball license?30 Are live sports the key to future success? Analysts tell us that the average household can afford 2.5 paid premium subscription services,31 a number that may be tempered by inflationary pressures.32

Over the past few of years, talent and rightsholders in streaming-focused productions (even if there is a theatrical “hybrid” release or an earlier premiere of series episodes on traditional broadcast television) are finding that percentage upside, measured within some definition of breakeven, has left the building. Instead, those who used to generate that percentage upside are now relegated to some bonus calculation. Less frequently today, this measure may be a cost-plus markup paid up front, a higher talent or rights fixed fee, or a bonus based on the number of seasons produced (for traditional episodic series) but not an ownership interest in the streaming network itself and the increase in its value that their production may
Another aspect of this paradigm shift leaves no room for off-balance-sheet investors. One case nails both the lost percentage upside and, from an antitrust perspective, decries that loss of potential for off-balance-sheet investors in the biggest arena of high value content. On February 7, 2022, longtime Warner finance partner, Village Roadshow, sued the studio over two issues: 1. the erosion of percentage upside (under a co-financing, co-production agreement) over Warner’s hybrid release of the franchise theatrical sequel, The Matrix Resurrections, and 2. Warner’s elimination of off-balance-sheet investors for its biggest and most lucrative upcoming productions after decades of building that investment opportunity, particularly with Village Roadshow.

In a 50-page complaint, including 12 pages of exhibits, Village Roadshow claimed that this form of simultaneous release decimated not only the profit potential of this particular film but of the entire franchise, while building the audience for Warner’s streamer, HBO Max, and accelerating piracy, all at Village Roadshow’s expense. As of filing, box office numbers for The Matrix sequel revealed a paltry $37.5 million in domestic box office. Comparisons based on the performance history of the franchise and the ability of such event motion pictures to generate massive upside (for example, Spiderman, No Way Home generated well over a billion dollars in box office revenues during the pandemic in a standalone theatrical release) formed the basis of the first issue being litigated.

As for the second issue, studios with streamers were now monopolizing that opportunity to build their new business, relying less on investors. We may never see the results of a fully adjudicated trial and subsequent appeal because I suspect a big settlement in the offing. Nevertheless, our industry is ripe for review. Antitrust issues resonate, particularly after Biden’s FTC appointment, Lina Khan, has pledged to drill down on a recent flood of M&A and anti-competitive practices. Indeed, the FTC and the DOJ have been sniffing around to understand the media business but we have no idea what their end game could be . . . if anything. Are the big boyz abusing their power? Depends on whom you ask.

Does economic failure temper antitrust action? Do streamers wake up and create an aftermarket in “other downstream buyers”? Is the failure of antitrust action partially to blame for the shuddering of the valuation of streaming, or does this failure empower the most powerful of the entertainment industry to gobble up additional assets?

For too long, antitrust regulation has festered in the United States and relied much more on the European Union. The EU has ever-expanding rules and regulations that go well beyond simple market manipulation and M&A; just being an organically grown big entity with bullying on its mind is enough. Will U.S. law take these issues more seriously now? Only time will tell.

III. Filling the Growing Crack in the Subscription Television Wall: Advertising

Pundits predicted the demise of advertiser-driven television. The new power of the streamers seemed to underline that projection, but time, costs, and the tapering willingness of consumers to shell out home entertainment dollars seem to have negated that assumption. As traditional broadcast and cable networks faded, the interruption of ads was assumed to be the market slayer. Accelerated by stay-at-home lockdowns during the pandemic, experts made long-term assumptions about consumer behavior. The notion of a one-size-fits all subscription video on demand (“SVOD”) model reigned supreme . . . until it didn’t.

“If you were looking for a single company that embodied this line of thought, you could do worse than point to Netflix. A leader of the ‘bingeable, no-advertising revolution,’ as one observer put...
it recently, the streaming giant became a monster success precisely because of its emphasis on a quality—and interruption-free—viewing experience. Part of that, for years, entailed a very clear perspective on advertising. To quote CEO Reed Hastings: ‘No advertising coming onto Netflix. Period.”

After a 73% drop in its share price generated by a current and projected fall in subscribers, even Netflix accepted that at some level, perhaps as a parallel or hybrid offering, advertising was in its future, a reality that has rippled through the PVOD universe. It would be equally foolish to assume that the PVOD is dead. Netflix has been written off by too many “analysts,” even though the company can easily survive with its current size and vast library exceptional content. However, to continue to remain a solo player, Netflix must rebuild on a new model with different consumer alternatives, one that will solidify advertising’s continuing and major presence in streaming.

[It’s] a function of something bigger than any single company or category: the surprising triumph of advertising in the digital era. This counters, perhaps once and for all, an end-of-advertising narrative that has been continuously offered, and continuously disrupted, for decades now . . .

It is of course true that ad-avoiding businesses certainly emerged, from HBO to a welter of premium subscription services. And many ad-driven businesses like network TV and newspapers suffered, or even died.

But meanwhile, some of the most mind-boggling business success stories of the digital era turned out to be purely ad-driven. Despite initial resistance from their respective founders, both Google and Facebook became advertising juggernauts. And mobile-era media remains thoroughly soaked in commercial messages, from the murky world of social media ‘influencers’ to old-school traditional ads interrupting video clips and articles to sponsored messages breaking up search results and content feeds. (Hard data is tricky to pin down, but by some estimates a typical consumer is exposed to as many as 10,000 commercial messages a day.)

That’s why Netflix is hardly the only subscription-focused business to capitulate to advertising. Spotify, to pick one high-profile example, is spending millions to build a podcasting presence partly to tap into that genre’s ad potential. The videogame world—and thus, whatever ‘the metaverse’ turns out to be—is increasingly ad-targeted, too. Even Amazon earns substantial revenue from advertising, through what once would have seemed like a completely unthinkable tactic: spiking its product listings with sponsored results.

Reality. Will the return of advertising as a significant driver in streaming impact the resurgence of a percentage-driven talent/rights holder reward of upside return? Can the oversized purchase of key sports rights stem subscriber attrition? And who has the cash to spend this extravagantly? No wonder Disney raised the cost of ESPN+ by 34%.

IV. Transition in Upside Definitions

We have lived in a percentage upside world of “net receipts, adjusted gross receipts, modified adjusted gross receipts, first dollar gross, cash break definitions of breakeven, gross after rolling breakeven, etc., etc., etc. . . . and even have had box office bonuses.” As streaming pioneer Netflix entered the original content business in 2013 with the release of House of Cards, the issue of how to replace traditional upside was born. The transparency and complexity of a growing entity was nothing streamers wanted the world to see. A new model was born. While there is still hope for big theatrical releases of franchisable movies like Top Gun: Maverick, most of us are still trying to get streaming under control.

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Content that would stay on Netflix, which would become its own aftermarket, eventually virtually worldwide. Rumors claim that some streamers might license some of their content to other telecasters to offset recent losses. But let's review how PVODs got here. Initially, *House of Cards* was an “inside politics” dramatic series with a relatively modest estimated production cost of $3.9 million per episode. The high-end content creators behind the series—writer-producer David Fincher and star Kevin Spacey working with Media Rights Capital (now MRC)—expected a backend for success. But by keeping the content and eliminating an external aftermarket, Netflix extinguished the possibility of that upside.

Netflix was increasingly governed by sophisticated internal metrics of success, which consisted of a growing set of consumer/production value algorithms. Top secret. Netflix was loath to reveal these numbers. So, they pioneered overpaying content suppliers and talent with large upfront payments to avoid upside based on measurable popularity. The “mark-up” was born. A percentage of the hard production cost added, upfront, to the total price Netflix would pay for a buyout of all future revenues from that content. Unions and guilds would later work out a structure for the payment of residuals, hardly based on that model.

The mark-up started at a whopping 50% but soon slid down to 30%, 20%, and finally 15% until that model faded, mostly to be replaced by alternatives more easily applied to series. The alternative included a success fee based on episodes ordered and supplemental market payments, which were negotiated as part of the original series production order on a per episode (often six figures) basis, to be paid retroactive to the first episode but only starting on the second cycle order. Netflix also financed feature films, some with a theatrical release component.

Disney and Apple adopted Netflix’s approach of supplemental fixed-sum bonuses as they grew their online streaming services, at least for the fare intended for initial or simultaneous release on their streamer. Amazon and Apple use a series “dollars-per-allocated point” structure driven by orders for additional seasons, with more accorded to higher defined levels of payments dependent on bargaining power and stature. Since Discovery is rejiggering its absorption of WarnerMedia, we cannot be sure what their upside formulae will look like. But we do know that the diminution of the theatrical marketplace, with an unclear future even as COVID subsides, further eroded the calculation of upside even in that segment of the industry. So, what’s the new “next” if streamers are the real game in town now?

The “television” business, which now includes streaming, has long been able to determine how to compensate rights holders, talent, and co-investors within an advertiser-driven world. *Net profits, Adjusted Gross Receipts*, and *Modified Adjusted Gross Receipts* (MAGR) were all models built upon this income model. Sales and license fees, often flat payments in a world of fractionalized buyers around the world, were always a function of the relevant “buyers” revenue base. Subscriber fees. Ad revenues. Success metrics. And even as the streaming world seems to be measured solely by numbers of subscribers, whatever happened to “profits”? As the nascent days of streaming begin to mature, even as they continue to invest (often with creatives’ foregone upside) in growth, Wall Street expects profits! Is that day neigh upon us? Disney projects profits by 2024, but is that real? And what about “us” representing the participants? Let’s see how business models are or may be shifting.

For some, the wavering of the streaming numbers has shifted hope for a resurgence of traditional theatrical releases.

**V. Can Meaningful Percentage Upside be Calculated in the New “Television” World?**

As stock prices plunged this past winter after the biggest streamers failed to meet their subscriber projections, some of their executives decried the rising cost of producing their premium content. Yet they
continued to pay significant bonuses and other fixed-sum compensation (as opposed to performance-driven percentage upside). Talent and rightsholders demanded an increase in all forms of those fixed payments, from upfront pay to bonuses. Thus, streamers continue to pay big dollar numbers to attract quality content creation without any requirement of genuine success.

These now-mega companies have also set other patterns that place upward pressures on costs for series rights and talent, notably by ordering significantly fewer episodes per season. True, they have mostly eliminated expensive pilots, now willing to commit to series directly. The television industry used to have 39, then 26, then 22 episodes per season. Streamers brought that down to between 8 and 13. To sustain their established annual income, many continuing series regularly—from showrunners and writers to talent—simply charged more per episode. The argument that consumers demand more choice, more variety in a PVOD universe, moved the streamers to fewer episodes per cycle to accommodate this assumption. Further, these companies may have correctly assessed that fewer shows elevates production quality.

But obvious consequences abound, which only makes the loss of percentage upside a much bigger cost factor. Fewer episodes also reduce the aggregate value of the aftermarket. While the sheer volume impacts the streamer itself far less (particularly when the streamer is its own aftermarket), talent and rightsholders are relegated to specific limited run programs.

This cost-of-content reality suggests that streamers’ blindly jacking up front money to make for lost potential upside is simply not a prudent business practice. What’s worse, metrics from sophisticated tracking companies, combined with old world Nielsen analytics, are nailing some very predictive and accurate assessments of what success in the streaming world looks like, on a program-by-program basis.

Thus, some economic model seems to beckon, although much data analysis will be needed to assign specific numbers to the concept. Streamers probably will have to moderate, if not eliminate, those big, frontloaded payments; but when those benefits are removed as costs spiral out of control, an angry “here we go again” program supplier, talent, and rightsholder base is likely to demand, in screaming unison, a meaningful backend measured in success. Agents and lawyers unite.

What is that success metric? With data available in real time today, particularly for Internet and mobile delivery, the answer is very clear: viewing hours per program. That metric needs to assign a set dollar number per viewing hour per consumer, a function of specific programming costs and subscriber fees. Easily calculated, especially for publicly-traded companies with certified financials. Gross subscriber revenues allocated among gross viewing hours yields a value per viewing hour for each streamer.

Once you have the aggregate number of viewing hours for a specific program, the rest is a function of negotiation. Add revenues from ancillaries and you have the theatrical equivalent of gross film rentals and the television version of gross license fees. This forms a summary metric that goes to the central purpose of this article. What are production costs? Overhead and interest included? Recouped from 100% attributable gross? Less than 100%? Is that a distribution fee equivalent?

What remains is open game to be split: a portion retained by the streamer and the balance to be accorded to program suppliers, talent, and rightsholders. Breakeven is clearly measurable. A small percentage of gross theatrical revenues, for those simultaneous or near simultaneous releases, might also be added to the pot from which creative participations are paid. Adding in the ad revenue component into the streamer’s model, where relevant, is nothing more than reaching into past traditional models to mirror their component metrics. And trust me, there are plenty of remaining experts who know just how to do that.
Does this measure seem too complicated? May not be quite so intricate. In fact, the industry has already been calculating this metric in a slightly different form for years. Besides, with modern computer processing power further bolstered by artificial intelligence, industry standard metrics can be quick and easy today. Above all, there is no greater measure of success than the time consumers spend viewing their favorite programming. The fact remains that arbitrary supplemental bonuses are wild approximations, under the theory that the streamer would not order additional programs without some measure of success, that have some validity. Just not enough.

Although streamers argue that they may pay less than the old-world formulae, reaching some degree of upside sooner is well worth the sacrifice. Although applauded by many in the industry, this “democratization” of upside does not appeal to those responsible for the mega-hits that dominate social and traditional media coverage. Yet streamers are not saddled with out-of-control marketing and distribution costs, which without a theatrical release component are marginal at best. As streamers fight the very notion of transparency, I am reminded of the 1970s premium cable networks that refused to reveal their subscriber data until necessary to justify why they could no longer pay the licensing premiums the industry had been accustomed. It’s happening again! Advertising benefits and cost pressures are changing those arrogant assumptions.

Streamers also correctly argue their primary role in creating niche opportunities to content that would otherwise never have access to an audience. OK. I’ll buy that . . . but so what? A viewing hour metric is self-correcting, rewarding what works and leaving behind that which does not. And exactly what is the benefit of streamers knowingly overpaying for content, when a meaningful share of upside, based on transparent reporting of viewing house attached to specific programs, might actually cost them less? Paying someone on success should not be a concept that generates massive resistance. Sure, sponsorship has worked in other digital formats, like podcasting, but that old-world model is precisely why many consumers migrated to SVOD providers in the first place. Viewing hour metrics are the most natural choice. Ah, as noted, advertising is roaring back.

Streamers are also addressing their “subscriber” wall, in other words their inability to get even close to capturing their total addressable market (the “TAM” metric), by moving into the arena of advertiser supported streaming (AVOD) for cheaper and less content rich lower tiers of their services. They need more money to justify a higher price-earnings ratio that impacts their stock price. Upside models are part of those calculations, and talent, rights holder, and co-investor demands should develop a ground-up new performance and percentage-based upside. If the industry lawyers and agents who represent these participants are paying attention, that process can and should be accelerated. These metrics are easily combined with a viewing hour performance upside note above.

Traditionally, AVOD services, like YouTube and Crackle+, tend to focus on lower cost niche programming, user-generated content, library fare (often non-exclusive), and product that failed to find a home on more lucrative sites. Most major AVOD sites have developed ad-revenue-sharing models for their creative providers along standard formats. However, issues may arise concerning which ads generate shareable ad revenues (program-related versus general network advertising). Like Netflix, but with an existing ad-sales operation, Disney is also actively exploring and experimenting with advertising, including a functioning parallel streaming AVOD model.

We need to be more forward-thinking—less consumed and bound by the blind and weak argument of “precedent.” Change is a necessary part of any new technological/business paradigm shift. It’s time for lawyers and talent to redefine the next generation of deals in this space. Our turn.
Endnotes


2. For example, in 2018, the Department of Justice (DOJ) pushed the Walt Disney Company to divest twenty-two regional sports networks in order to complete acquisition of certain assets from Twenty-First Century Fox. But when AT&T faced DOJ resistance to its merger with Time Warner the trial court ruled against the DOJ. Complaint, U.S. v. AT&T, Inc., No. 1:17-cv-02511 (D.D.C. Nov. 20, 2017).

3. In 1970, for example, the Federal Communications Commission passed the Financial Interest and Syndication Rules (“fin-syn rules”) that slammed CBS, NBC, and ABC, preventing them from owning their prime-time creative entertainment slates (or locking them up contractually for excessive terms of exploitation). The rules were ended in 1993, which resulted in a mania of major networks increasing their insistence to own and control programs they picked up that squeezed a horde of non-network program suppliers out of the post-network run mega-profitable aftermarket. Networks increased in power, which made them more valuable takeover targets and thus accelerated consolidation in the entertainment industry.

4. For example, note the Supreme Court decision in U.S. v. Paramount Pictures, Inc., 334 U.S. 131 (1948), and the resultant consent decree, that mandated the separation of the motion picture exhibition from major studio distributors. However, antitrust laws have been used very sparingly against entertainment mergers and acquisitions in recent decades. The main antitrust statutes are the Sherman Act of 1890, the Clayton Act of 1914, and the Federal Trade Commission Act of 1914, as amended. In 1976, Congress also passed the Hart-Scott-Rodino Act, which requires companies to file a pre-merger notification report with the Federal Trade Commission (FTC) and the Department of Justice (DOJ) before a planned merger or acquisition occurs, giving the government the ability to reject or modify the proposed transaction.

5. Under the direction and leadership of Biden’s appointed FTC chair Lina Khan, The Federal Trade Commission has revamped its antitrust inquiry into Amazon.com, shaking up the investigative team, re-interviewing potential witnesses and asking questions about the company’s recent acquisition of MGM Studios, three people familiar with the investigation said. The agency has been looking at Amazon since 2019 over antitrust concerns with its retail business and cloud computing services. Lina Khan, who became chair of the agency last year, had made a name for herself with a groundbreaking legal paper on Amazon’s potential antitrust violations and has taken a personal interest in the investigation. She has assigned the case to John Newman, an antitrust professor and former Justice Department prosecutor, who joined the FTC as a deputy director of competition in December [2021] and has reorganized the team investigating Amazon, according to the people, who asked not to be identified discussing nonpublic information about the situation.”


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14. It is important to understand the main terms and acronyms that define content delivery to consumers. A “theatrical” release means that the film in question is exhibited on the big screen in traditional movie houses. A “feature-length” film only denotes running time (averaging about 2 hours), but the film might never find the big screen. “Terrestrial” embraces over-the-air digital signals that can reach the consumer by antennae, cable, satellite, or other comparable system other than mobile; this mode of delivery replaced the antiquated analog “broadcast” model. While “IP” generally means “intellectual property” to film and TV lawyers, the term can also denote “internet protocol” to more technologically-oriented users. “VOD,” however, means a digital “video on demand” service, often further refined with a letter at the front. “SVOD” adds “subscription” to the acronym, although VOD services with high-profile original content and higher standalone subscription fees may use “P” (for “premium” – “PVOD”) instead of S. “A” denotes “advertiser-supported,” while “H” means “hybrid” (a combination of subscriber and advertiser-supported). In all of these services, which this article often refers to as “networks” or “streamers,” the content is maintained on the supplier network’s servers (or cloud) and usually not the consumer’s personal hard drive or cloud space. Where the consumer receives personal control of a copy of the content, whether as a compact device (e.g., video disc, cassette, or some digital equivalent) for permanent accessibility, that download service falls under the general notion of “home video” with “EST” (“electronic sell-through”) as the primary commercial transaction. Today, “home video” is called “home media.” While most entertainment lawyers believe that VOD services should be treated as “television” within a “network” and not “home video”, the ramifications of that descriptive confusion can wreak havoc on old world backend percentage definitions, and courts and sophisticated arbitrators do not always follow that practice. At least one court found that SVOD in one older definition was more properly considered to be home media. See Ruling after Evid. Code Sec. 402 Hearing Re: Interpretation of Agreement at Bifurcated Accounting Trial, Nye v. Walt Disney Co., No. BC 673736 (Cal. Super. Ct. Feb. 2, 2021).

15. According to a Nielsen report of trends as of May 2022, the growth of streaming . . . continues to change history, as streaming viewership hit yet another new high in May, claiming 31.9% of total TV time. . . . Compared with broadcast and cable viewing, however, streaming usage increased by 2% . . . . Disney+ attracted 2.5% of the total TV share on May 27, and Netflix claimed 9.0% on Saturday, May 28. . . . Also in line with historical norms, broadcast and cable viewing both declined in May, as viewing volume fell 3.5% for each.


16. In fact, Disney+ subscriber growth remained positive even as Netflix experienced serious reductions in its subscriber base. “The Burbank entertainment giant [Walt Disney Co.] said Disney+ added nearly 8 million subscribers during the second quarter [2022], exceeding analyst estimates. Wall Street had expected Disney+ to gain about 5.2 million paying members, according to FactSet. The service now has 137.7 million subscribers.” Ryan Faughnder, Disney+ Adds 8 Million Subscribers, Avoiding Netflix Streaming Slump, LOS ANGELES TIMES (May 12, 2022, 2:01 PM), https://www.latimes.com/entertainment-arts/business/story/2022-05-11/
Disney+ experienced a sizeable subscriber increase internationally with their acquisition of streaming rights to professional cricket in India, a low-yield subscriber base (less than $1/month), which may change as Disney+ negotiates to extend that franchise for additional years. But Disney did not escape from senior management purges during this stormy period. In a major shock to the industry, on June 8, 2022, industry veteran Peter Rice was ousted as head of Disney TV content and replaced by his top lieutenant, Dana Walden. See Peter Rice Ousted at Disney; Dana Walden Takes Over as Chief Content Officer, CBS News (June 9, 2022, 1:14 PM), https://www.cbsnews.com/losangeles/news/peter-rice-ousted-at-disney-dana-walden-takes-over-as-chief-content-officer/. Industry insiders explained the transition as a “cultural clash” with Disney CEO, Bob Chapek.

17. “Families are feeling the pinch. Nearly 9 in 10 Americans say they’ve started bargain-hunting for cheaper products, and about three-quarters are cutting back on restaurants and entertainment, or putting off planned purchases, according to the Post-Schar poll conducted in late April and early May.” Abha Bhattarai and Jacob Bogage, Most Americans Expect Inflation To Get Worse, Post-Schar School Poll Finds, WASHINGTON POST (June 9, 2022, 7:00 AM), https://www.washingtonpost.com/business/2022/06/09/inflation-worse-poll-americans/.


Netflix announced [on April 19, 2022] it’s exploring adding a lower-priced, advertising-based tier to its service. The decision has put the world’s largest streaming video service in a peculiar place: following legacy media’s lead. Comcast and Disney-owned Hulu is the founding father of advertising-supported streaming. In recent years, Warner Bros. Discovery’s primary streaming services (HBO Max and Discovery+), NBCUniversal’s Peacock and Paramount Global’s Paramount+ all launched with ad-based tiers for a lower price than their commercial-free products. Disney said last month Disney+ will offer an advertising-supported product. The legacy media industry has spent the past four years overhauling their businesses to compete with Netflix. All of legacy media decided Netflix’s streaming-only model was the future of entertainment consumption. The companies saw Netflix trade at sky-high multiples, leading to a soaring stock price, no matter how much it spent on content.

The optimistic goal for legacy media companies has been to attain the same type of trading multiples as Netflix—an ‘everybody wins’ scenario. But, at least for now, it appears entertainment rivals have pulled down Netflix, which acknowledged during its first-quarter earnings update that growing competition has led to its slowing growth.


22. Note that sports programming may soon migrate much more into streaming, beyond programmers like Disney’s ESPN+. Viable sports may be even more expensive, but there is generally no backend issue to worry about.

23. As of April 8, 2022, separated from AT&T, the company became Warner Bros Discovery, Inc. under former...


24. In June 2022, the film group was restructured with the departure of its leader, Toby Emmerich, who was replaced by former MGM executive, Michael DeLuca, and his producing partner, Pamela Abdy.


32. But perhaps that appetite is growing. “[A Nielsen] survey reveals that 46 percent of streaming consumers feel overwhelmed by the ever-increasing number of platforms and titles available to them, which can make it tougher to find specific titles in a specific place. And no wonder: As of February [2022], according to Nielsen, there are 817,000 unique program titles (series, movies, specials and other programming) available via streaming services — an increase of some 171,000 titles (26.5 percent) since the end of 2019.” Rick Porter, *Streaming Overload: Viewers Feel Overwhelmed by Too Many Choices, Nielsen Survey Finds*, Hollywood Reporter (Apr. 6, 2022, 6:00 AM), https://www.hollywoodreporter.com/business/business-news/streaming-users-overload-choices-1235125685/.

The continued increase in the amount of available content has meant a corresponding rise in time spent streaming. Streaming consumption totaled 169.4 billion minutes in February, an 18 percent rise from a year earlier (143.2 billion minutes). Streaming has consistently accounted for about 28 percent of total TV usage over the past 10 months, when Nielsen began releasing its monthly snapshots of viewing by platform.

And despite the widespread sentiment that the huge volume of programming feels overwhelming, viewers have no plans to slow down. An overwhelming 93 percent of respondents in Nielsen’s survey said they plan to keep the paid streaming services they have or add more over the next year. The percentage of people who subscribe to four or more streaming services has more than doubled (from 7 percent to 18 percent) in the past three years.”


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38. “The Federal Trade Commission (FTC) and Antitrust Division of the U.S. Department of Justice (DOJ) held another installment of their ‘listening tour’ on April 27, 2022, with a focus during this session on the media and entertainment industry. As with the forums before it, the FTC and DOJ held the discussion to allow smaller market participants – in this instance artists, content creators, journalists and the public – to express their views on the effects of consolidation in the media and entertainment industry as part of the wider effort to obtain feedback to inform the pending revisions to the antitrust agencies’ merger guidelines.” Caitlin F. Saladrigas et. al., *Media and Entertainment Industry Gets a Turn in DOJ-FTC Antitrust Hot Seat*, HOLLAND & KNIGHT (May 4, 2022), https://www.hklaw.com/en/insights/publications/2022/05/media-and-entertainment-industry-gets-a-turn-in-doj-ftc-antitrust.

39. Michael Hiltzik, OpEd contributor for the Los Angeles Times, indicated that this practice may also extend to Disney’s acquisition of 21st Century Fox: “For years, Disney has been cheating the writers and artists of tie-in products — novelizations and graphic novels based on some of its most important franchises — of the royalties they’re due for their works. That’s the conclusion of a task force formed by the Science Fiction and Fantasy Writers of America and joined by the Writers Guild East and West and several other creator advocacy organizations.” Michael Hiltzik, *Column: Disney Allegedly Has Cheated Hundreds of Writers Out of Pay For Star Wars and Other Properties*, LOS ANGELES TIMES (May 11, 2022, 6:00 AM), https://www.latimes.com/business/story/2022-05-11/disney-star-wars-writers-of-royalties.

40. Here is a list of just some of the recent “Big Tech” European Union/United Kingdom antitrust matters, investigations and cases, some pending, against the companies mentioned. Some of these are only “allegations” filed by competitors or European Union/United Kingdom governmental agencies:

**Facebook:** 6/4/21, Investigation of possible unfair advantage regarding classified ads versus competitor placement and access to metadata; 6/4/21, using metadata against competitors; 2/14/22, for not paying users for personal data and requiring them to allow such data collection;

**Microsoft:** 11/26/21, filing against bundling cloud services with its other Microsoft products;

**Apple:** 6/16/20 for issues around self-preferencing, closed-end exclusivity and tying practices; 3/4/21, restricting developers creating parallel apps for other mobile platforms;

**Amazon:** 11/10/20, issues regarding access to data and preferential treatment;

**Google:** 6/27/17, fined €2.42 billion for using its market dominance for self-preferencing (on appeal); 7/18/18, fined €4.34 billion for tying various Google apps, often on an exclusive basis, for manufacturers who wish to preinstall certain other, limited Google apps; 3/20/19, fined € 1.49 billion for abusing its dominance in online search advertising intermediation; 12/29/20, for abusing its market domination in access to and payment for Android mobile video games; 1/8/21, for using its Privacy Sandbox app to remove competitors’ data tracking cookies from Chrome; 6/22/21, an investigation dealing with Google’s limiting competitors’ access to user data and using its dominance to intermediate between publishers and advertisers; 7/29/21, on forcing Android users to pay “excessive” amounts to access apps in Google’s Play Store.


Expected European Union legislation, discussed below, will further tighten a noose around the necks of some of the bigger tech companies.

41. In addition to its existing antitrust rules, the European Union will soon add the “Digital Markets Act (DMA)
[which] will ban certain practices used by large platforms acting as ‘gatekeepers’ and enable the Commission to carry out market investigations and sanction non-compliant behaviour. The text provisionally agreed by Parliament and Council negotiators targets large companies providing so-called ‘core platform services’ most prone to unfair business practices, such as social networks or search engines, with a market capitalisation of at least 75 billion euro or an annual turnover of [€]7.5 billion. To be designated as ‘gatekeepers’, these companies must also provide certain services such as browsers, messengers or social media, which have at least 45 million monthly end users in the EU and 10,000 annual business users.”


One industry expert expresses her view of the upcoming changes:

The changes are not equal across platforms. For example, while WhatsApp will have to interoperate with competitors, the ,i.e., Bloomberg out the situation.” he long quotation in the endnoteotation. doesn’ in tone to look out for. om previous paragraph. Facebook.com will not. Apple and Google will have to allow rival app stores that have equal functionality. Google search will have to share click and query data with entrants and will be restricted in accessing data from other parts of Alphabet [Google’s parent], but it is hard to know how much competition that will induce relative to interoperability or competition in app stores.

Europeans may be able to choose among app stores that offer lower fees or different specialties/curation, which could be really fun. Business users on a platform (e.g. a newspaper) may be able to contact users outside the platform with price discounts or other offers.


42. The EU’s Website explains: “EU Antitrust policy is developed from Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU). Article 101 prohibits anti-competitive agreements between two or more independent market operators. Article 102 prohibits abusive behaviour by companies holding a dominant position on any given market.” Antitrust, EUROPEAN COMMISSION, https://competition-policy.ec.europa.eu/antitrust_en. Between the European Union’s privacy and antitrust rules, the EU has cracked down on big American tech and content companies like Facebook/Meta and Google.


44. Jake Lerch, Down 73% Year to Date, Is it Time to Buy Netflix?, MOTLEY FOOL (May 12, 2022, 9:00 AM), https://www.fool.com/investing/2022/05/12/down-73-year-to-date-is-it-time-to-buy-netflix.


46. Walker, supra note xvii.

47. “[C]ash-rich tech firms like Amazon and Apple continue to see live sports as a way to dramatically amplify audiences for their streaming services. Earlier this year, Amazon landed exclusive rights to Thursday Night Football for the next decade. Apple TV, which has already staked a small claim on Major League Baseball, last month announced an exclusive, ten-year deal with Major League Soccer that will make the service a necessity for the country’s growing domestic soccer fans. All these deals, however, seem like starter marriages compared to the tech giants’ long-term ambitions in live sports. Both Amazon and Apple, as well as most legacy media companies, are currently considering [acquiring more major league sports rights].” Dylan Byers, Is Apple’s Eddy Cue About to Get NFL’s Sunday Ticket?, PUCK (July 14, 2022), https://puck.news/is-apples-eddy-cue-about-to-get-nfls-sunday-ticket/.


49. Peter Dekom, The Evolution of Film and Television Upside: But Where Are We Now and Where Are We Likely to Go?, 38 Ent. & Sports Law. 1 (Winter 2022).

50. According to Matthew Belloni, Disney+ may be growing subscribers while Netflix has contracted, but its ARPU (average revenue per user) is less than half that of Netflix: as reflected in 2022 second quarter financials, Disney+’s...
ARPU is $6.32 in the U.S. while Netflix generated $14.92. Alex Weprin, *Disney Trims $1B in Content Spend Amid Drive for Streaming Profits*, *Hollywood Reporter* (May 12, 2022, 8:04 AM), [https://www.hollywoodreporter.com/business/digital/disney-content-spend-profit-streaming-1235145367/](https://www.hollywoodreporter.com/business/digital/disney-content-spend-profit-streaming-1235145367/). Both streamers also rely heavily on the overseas markets, but Belloni points out that some of that growth may be high in numbers but low in ARPU. “India, of course, which is responsible for about 50 million Disney+ subscribers and half of [the second] quarter’s member growth as the cricket season began, and where the average user now pays just 76 cents a month. Not great . . . India has been a quagmire for nearly all Western media companies—including Netflix, incidentally—but re-upping the Indian Premier League cricket rights [over the summer of 2022] could cost $5 billion, according to the *[Wall Street Journal]*, and it’s unclear what return Disney would get on that investment.”
A Constitutional Reset on Confederate Monuments, Civil Rights and Cultural Icons: How Naming Rights, Trademarks, and Public Statuary Shape Social Justice

By Alexandra Darraby

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Foreword
This is written to memorialize the names of Ahmaud Arbery, Breonna Taylor, George Floyd, Homer Plessy, Linda Brown, and Rosa Parks who stood—and sat—and died for equal justice—and the many others, named and unnamed. The author was in Brunswick during the Arbery shooting, attended the Town Halls convened by the Mayor of Brunswick and provided testimony on the Confederate monuments in Brunswick and the South. Fundamentally, this article is about story telling as national history, on origin myths and notions of “one nation for all.” It is about what happens when that history is not, in fact, a common one, or one no longer shared nor anchored to a common past?

What's in A Name? Naming Rights: Valued and Valuable are Part of the Urban Landscape
Names gird plazas, courthouses, universities, museums, sports arenas, and theatres. They define public places and function as guideposts to navigate our public spaces. These valued and valuable name identifiers are everywhere. Even places of leisure and livelihood are mapped by names, sourced to naming rights, bought and sold.

Towns and cities have such a name-littered landscape that names are commonly used as a form of urban GPS. In New York City, for example, to attend a play or concert at Lincoln Center (archival obscurity as to whether the name refers to President Abraham Lincoln), cut over from the FDR (Franklin Delano Roosevelt highway, a name still largely intact), cross town to Columbus Circle (Christopher Columbus, explorer or destroyer, whose sculpture is a controversial crucible for Native Americans), head north past the Theodore Roosevelt statue (‘a racist statue” according to Smithsonian publication), walk up the steps to the Josie Robertson Plaza ($25 million naming rights replacing former Lincoln Center Plaza), meet at the Revson Fountain ($64 million naming rights replacing former Lincoln Center Fountain) between David Geffen Hall ($100 million naming rights replacing former Avery Fisher Hall) and David H. Koch Theatre ($100 million naming rights replacing former New York State Theatre). These legacy landmarks function as testaments to who is remembrance-worthy and what is presented as a common history.

What happens when that history is not, in fact, a common one, or one no longer shared nor anchored to a common past? Is social justice achievable, or a common good identifiable, or governance viable, when
the nation is separated not merely by state and regional identities but by a national populous without a common calculus? What are the constitutional implications for a diverse and pluralist society whose citizens and members are not in unison with the arc of a traditional American storyline of Plymouth Rock and expansion of the Western frontier? Does democracy provide a broad enough landscape to absorb and sort the names, markers and monuments of us all?

The Halo Effect
Naming rights for arenas, leagues, teams, theatres, museums and educational facilities are so lucrative that individual deals for a single venue in a single year can be worth millions of dollars. The rights may run for decades, topping $100 million or more. The now-defunct Enron’s name-rights agreement with Major League Baseball’s Houston Astros is one of many examples of multi-million-dollar naming deals. The rights may exceed lifetimes (even longer than appointments of United States Supreme Court Justices) and continue for years, if not centuries.

Naming rights enable companies and individuals to attach their names and connect their brand identity to a consumer base in a completely different industry than their own service or product lines. This form of external cross-branding enables those paying for the rights to immerse their name into the goodwill of a completely different entity. The power of connectivity is not just about sales and revenues for brands and products and philanthropy. Naming is about power and status.

The halo effect is used here for naming rights that link a name to a venue, activity, monument or place already publicly treasured. Naming rights function like a papal blessing bestowed by business and culture. That association or affiliation is a form of subliminal advertising often linked to leisure pastimes that Americans love best: sports and entertainment. Few ticket holders or season subscribers have an emotional connection to a fleet of cargo planes known for speedy delivery. However, fans love sporting events and concerts at FedEx Forum home of the Memphis Grizzlies with a zeal bordering on devotion.

Although some naming rights like medieval papal indulgences require payment, the halo effect is not a blessing that can erase past deeds or cleanse sins. The halo shines and the halo tarnishes as the wheel of fortune turns for both companies and individuals. The Houston Astros, for example, bought back the name-rights from Enron’s creditors, and others below have had their halos disappear into the obscurity of legacy ether.

Nonprofit Development
Naming rights are not only a cash cow for sports and entertainment. The nonprofit world of education and museums use loftier terms to sell halos, like fund-raising, endowment, and academic chairs. “Development” is the euphemistic label for nonprofit naming opportunities. Development is as lucrative a name-brand opportunity for institutions as it is for businesses, and functions as a legacy halo to those donating money.

Some names are gold standards that glow brighter over time. The Arthur Ashe Stadium at Flushing Meadows–Corona Park, Queens is so identified with the Hall of Famer that his name is often used instead of the USTA Billie Jean King National Tennis Center. Hall of Famer Jackie Robinson, born to Georgia sharecroppers, broke the MLB color barrier on April 15, 1947 as the first African-American to play in the major leagues for the Brooklyn Dodgers. Robinson’s name is on national scholarships and locations in New York and other places, and his name is honored by his number 42, officially retired by MLB Commissioner Bud Selig, and worn by MLB team members on the April 15th anniversary to carry forward the Robinson legacy.
Nothing New Under the Sun

This fill-the-pot-name-the-dish approach to adorn venues, buildings, public places with names is not only ubiquitous but long-established, dating to the Colonial era in America. John Harvard, whose life in England overlapped with Shakespeare, and whose grandfather, coincidentally, was an alderman in Stratford-on-Avon, is among the first of the campus name-legatees.

Harvard was born at St. Savior’s Parish in Southwark in the shadows of London’s Old Globe. He made the trip in 1637 to America after studying at Cambridge but died within one year in the Colony. His wealth was based on inherited family money and lands in England. Riches during the Seventeenth Century were often linked to a pervasive economic engine based on slavery. Harvard’s deathbed noncupative will gave half his substantial estate to a “schoale or colledge,” an entity voted by the Great and General Court of the Massachusetts Bay Colony in 1636 to be located in New Towne--now Cambridge. The stated purpose was to “advance learning and perpetuate it to posterity.” In gratitude for the £700 bequest to the college plus a formidable library, a Boston court in 1639 changed the name of the college to Harvard. The statue commemorating John Harvard was created almost 250 years later as imagined by the American sculptor Daniel Chester French, the same artist who memorialized President Lincoln on the Washington Mall. Despite some voices for relocation, and other concerns, Chester’s work remains in Harvard Yard.

Effacing Name Rights: Halo Tarnish

Who decides if the name is tarnished, the degree of tarnish, and if the tarnish can be buffed clean? What does commemoration of the name or event, or the statue or monument, really signify, and how do we decide if a name should remain?

Campus and Courthouses

In 2020 Boalt Hall—after 120 years—changed its name to Berkeley Law School. Judge John Boalt moved from Nevada to San Francisco in the 1870s, founding the law firm of Estee and Boalt. Boalt neither attended the law school, known then as the School of Jurisprudence, nor taught there. The gift and naming rights source to his widow, a patron of the arts, who donated the money to the School after his death.

This would not seem problematic except that Boalt authored a paper titled “The Chinese Question” delivered to the Berkeley Club. The issues were then-timely legal topics as a series of anti-immigration and labor laws had been enacted in California against the very immigrant labor that had helped build the Central Pacific Railroad under President Lincoln’s Pacific Railroad Act of 1862. The California Legislature had already made it illegal for any person “of the Chinese or Mongolian races” to enter California. This Act was followed some four years later by enactment of the California Anti-Coolie Act of 1862.

“The Chinese Question” was used to support a federal bill titled the Chinese Exclusion Act proposed and urged by U.S. Senators from California. President Chester Arthur vetoed the Act on April 4, 1882, but nonetheless signed it into law after amendment on May 6, 1882. The Act is known—notoriously—as the first American national law that targeted an entire people by nationality, effectively banning Chinese immigration, as well as denying Chinese an avenue to American citizenship even for U.S. residents, a reality that did not change until the Magnuson Act in 1943. Not until 2014 did the California legislature propose a Senate Joint Resolution “Relative to Chinese Americans in California,” to “acknowledge the history of the Chinese...” [and to] ...recognize the contributions made to the State ...by Chinese Americans and Chinese immigrants and separately request the U.S. Congress to issue a formal apology to Chinese-Americans.

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The name Earl Warren—a Boalt Hall graduate—is a campus and courthouse name-brand. As Attorney General of California and then Governor, Warren, with others, established the architecture of America’s internment camps.\(^\text{17}\) Following the attack on Pearl Harbor, President Franklin Roosevelt signed Executive Order 9066 that authorized mass relocation of more than 100,000 Japanese-Americans from their homes to camps in California and other states.\(^\text{18}\) Current Asian-American researchers and contemporary art exhibitions and museology describe them not as internment but as “concentration camps.”\(^\text{19}\)

Warren testified at congressional hearings held by the House on Un-American Activities (HUAC), founded and chaired by Congressman Martin Dies, that Japanese should be removed and later told the Dies Committee that he did not want “the Japs back in California.”\(^\text{20}\) At a Boalt Hall presentation in 1969, ironically titled *Observations on Human Rights and Racial Discrimination*..., a group of Japanese American students...[reportedly] asked Warren: “Is it true that you, of all principal figures involved [in the internment of Japanese-Americans], are the only one who has refused to admit error?” [He replied, ‘Yes, that is true. I never apologize for a past act. Besides, that is just a matter of history now.’]”\(^\text{21}\) Despite multiple requests to Warren during the 1960s for an apology for his role in the internment of American citizens, an apology was not forthcoming until a formalized statement of regret was posthumously published in his memoir.\(^\text{22}\)

History has not seemingly tarnished the Warren name. As a newly appointed Chief Justice he delivered the unanimous decision of the United States Supreme Court in *Brown v. Board of Education of Topeka*.\(^\text{23}\) The *Brown* decision is actually four cases combined that established a constitutional principle of integrated education after years of a “separate but equal” standard, holding that the nine-year old pig-tailed Linda Brown and the other plaintiffs were “deprived of the equal protection of the laws guaranteed by the 14th Amendment.”\(^\text{24}\) Denied admission to the Sumner Elementary School a few blocks from her home, Ms. Brown’s option was to traverse a railroad switchyard to catch a bus to a segregated black school a mile away.\(^\text{25}\)

Biographers and historians offer various views of Warren for his role in *Brown* and the ramifications of overturning *Plessy v. Ferguson*.\(^\text{26}\) The importance of the Court’s constitutional commitment to integration are balanced against Warren’s support of internment of American citizens based on Japanese heritage. The Earl Warren name brands buildings and colleges on UC campuses such as UC Berkeley’s Warren Hall and UC San Diego’s Earl Warren College and even California’s most important hall of justice, the Supreme Court of California, housed in the Earl Warren Building.

Others in the firmament of naming rights and legacy at the University of California have had shorter lifespans. Sometimes the name-disowning occurs quickly. Naming the Francisco J. Ayala School of Biological Sciences at UC Irvine was approved in November 2013 by University of California President Janet Napolitano upon Professor Ayala’s gift of $10 million. “Adding the Ayala name to the School of Biological Sciences bestows the gold standard of scientific distinction and a shining model of selfless service on our school,” wrote Frank LaFerla, who held the Hana & Francisco J. Ayala Dean’s Chair.\(^\text{27}\) Ayala, a recipient of dozens of scientific and philanthropic awards, received the National Medal of Science and the prestigious Templeton Prize awarded at Buckingham Palace. But three years later, Napolitano, the Dean and UCI stepped far away from Ayala and effaced his name from the Irvine campus, including the science library, graduate fellowships, scholar programs and endowed chairs.\(^\text{28}\) At the age of 84, sexual misconduct allegations and investigation unseated him, and forced his faculty resignation.\(^\text{29}\)

**Confederate Monuments**

Brunswick is a tiny coastal town with a foreshortened main street of a few blocks, a bar, pizza stands, empty store fronts and for-rent signs. The main road to town is sided by a corner shop advertising halal
beef, a mortuary, a store selling Victorian antiques and a tired outpost of a Southern supermarket chain. A statue of an unidentified Confederate soldier stands atop a 21-foot column in Hanover Square, one of many squares that grid central Brunswick, a James Oglethorpe design of urban green space made famous in Savannah. The Hanover Square Confederate monument erected in 1902 by the Ladies Memorial Association was paid for by the daughter of General Robert E. Lee. The column’s four-sided plinth is inscribed:

_In honor of the Confederate Soldiers, Who died to repel Unconstitutional Invasion to protect the Rights reserved to the People to perpetuate forever the sovereignty Of the state...the South’s cause is just._

Some 160 years later, the message of the monument is still believed by those who defend it and have sued to keep it in place.

The term “unconstitutional invasion” inscribed in 1902 is not an historically accurate description. In June 1861 those called to “the Cause” enlisted as the Brunswick Riflemen, joined the 26th Georgia Infantry Regiment, and left the town to civilians and non-fighting men, the elderly and infirm. Locals, however, managed to destroy Brunswick’s new railroad tracks and burn down the Oglethorpe Inn before the town was abandoned. By March 1862 Union troops occupied Brunswick on land and anchored in the important port. The monument’s inscription of “sovereignty of the state” refers to the rights of Georgians to maintain an Antebellum way of life, plantations operated on slave labor. The “rights of the people” are the rights of white people.

Just as _Brown v. Board of Education_ did not resolve the issue of school integration, perhaps no one court decision will encompass resolving Confederate monuments and vestiges of Jim Crow. In fact, lawsuits are pending and new ones filed to maintain those monuments and punish elected officials who voted to remove them and their patent or implicit Jim Crow messaging. Plaintiffs who want the statues to remain extol the laudatory sentiments of the Old South and urge them as tributes to the valor of the soldiers who fought for the Confederate States of America. Confederate monuments are a daily reminder of a life of servitude at the whim and whip of the master. A single-arc storyline urged by those nostalgic for the antebellum South.

The Confederate States of America ended with the end of the Civil War, a war that had no VE Day but a series of sporadic and separate surrenders in 1865. Some fifty years later, in the early 1900s, various public and private groups, among them the United Daughters of the Confederacy, erected Confederate statues and monuments throughout the South. Then and now, proponents of these Confederate icons claim they merely memorialize fallen heroes, but for others they commemorate racism and slavery, perpetuating Jim Crow and a steadfast belief against historical fact that the South was not defeated. This failure to acknowledge facts or publicly accept defeat is evident among elected officials and the public.

By 2020, some 160 years after the Civil War, the South has been changed in part by demographics and a heterogeneous population, many of whom are appalled or dismayed by public confederate monuments that uplift a plantation system directly or indirectly and claim the South’s cause is just. Euphemistic use of the word “cause” should not deceive. The _cause_ championed is Confederate statues, slavery and the plantation system, anathema to decency regardless of race or nationality. The unequivocall fact—for those who may not have fully absorbed the lessons of the Civil Rights Amendments--slavery is unconstitutional. Acts that perpetrate or sustain it are unlawful.

The State of Georgia since 1958 owns Stone Mountain Park, a monolithic tribute to the President of the
Confederate States of America Jefferson Davis and Generals Lee and Jackson. Stone Mountain is the largest bas-relief monument in the world dwarfing Mount Rushmore. The Stone Mountain Park official opening commemorated the day of the assassination of President Abraham Lincoln. The etched mountain portraits are the site of 50 years of tribute-burnings to the rebirth of the second Ku Klux Klan. Stone Mountain is the most visited site in Georgia, according to state statistics, and its web site is papered over with corporate sponsorship that obscures State ownership.

In July 2020 the Georgia Attorney General issued a warning that it would prosecute to the full extent of the law anyone who interferes with Confederate monuments and statues, whether on state or local government property or private property. The timing and the message track and echo President Trump’s Executive Order of June 2020. The AG states it will enforce Georgia law that imposes civil and criminal penalties for removing, replacing, damaging, or destroying Confederate memorials, monuments of any kind as well as flags. The Georgia law also applies to private property, and adds additional grounds of unlawful activity, which include obscuring, defiling and defacing any Confederate object or tribute.

The Georgia statute makes unlawful any act to “abuse contemptuously” the symbols of the Confederacy. The nebulous criteria of “contempt” as a statutory standard for unlawful conduct is as vague as the one for contempt already struck down in *Matal v. Tam* as unconstitutional by the Supreme Court in an opinion delivered by Justice Samuel Alito. Contempt for the Confederacy is as integral to civic discourse on major historical events in this country as are the views of those championing laws to entrench confederate aspirations in the 21st Century, but as a basis for civil or criminal liability they should not pass constitutional muster.

To interpret Georgia’s monument law as anything other than pro-Confederacy strains legal construction. The final statutory section recites “the memorial to the heroes of the Confederate States of America upon the face of Stone Mountain shall never be altered, removed, concealed, or obscured in any fashion and shall be preserved and protected for all time as a tribute to the bravery and heroism of the citizens of the state who suffered and died in their cause.” Nonetheless, Decatur and Athens, two cities in Georgia, relocated Confederate memorials. But hundreds of others without precise count remain in Georgia and the South.

The only contemporary federal edict on Confederacy markers is from President Donald Trump. On June 26, 2020, President Trump issued Executive Order 13933, which, among other things, calls for federal criminal charges for acts that deface, damage, desecrate or destroy Confederate monuments, memorials and statues to protect them from “violent mobs” and the “radical fringe.” The Order links protest with “rioters, arsonists, and left-wing extremists who... have explicitly identified themselves with ideologies — such as Marxism.” The Order terminates federal funds for State and local governments that do not enforce the laws, regardless of whether or not the works are on federal land. The Order seeks to preserve Confederate Monuments and is clearly directed against Black Lives Matter protestors. The Order states, in relevant part:

>[N]o individual or group has the right to damage, deface, or remove any monument [or government property] by use of force....It is the policy of the United States to prosecute to the fullest extent [of] federal law...any person...that participates in efforts to incite violence or other illegal activity in connection with...riots and acts of vandalism... including terrorism laws...[F]or those who believe “[...] America as fundamentally unjust...and [seek] to impose that ideology...through violence and mob intimidation.... They” shamelessly attack the legitimacy of our institutions and the very rule of law itself.
In response, the Department of Homeland Security announced a special task force to coordinate federal law enforcement agency assets with local ones to protect historic monuments under code name PACT, “Protecting American Communities Task Force.” “We [DHS] won't stand idly by while violent anarchists and rioters seek not only to vandalize and destroy the symbols of our nation, but to disrupt law and order and sow chaos in our communities.” The federal government has remained notably impassive and failed to assist those same State and local governments grappling with a surging and mutating Covid-19 pandemic that has already cost the nation almost 350,000 lives and still counting. Yet the White House and DHS were ready to mobilize assets and resources to maintain Confederate monuments in place and control civil protest.

New York, Theodore Roosevelt and Christopher Columbus

Mayor Bill de Blasio established the Mayoral Advisory Commission on City Art, Monuments and Markers in 2018 to investigate “hate symbols” in New York City and make recommendations for removing them. The Equestrian Statue of Theodore Roosevelt, for which the Commission reportedly had no recommendation earlier on, is now scheduled for removal, supported by Roosevelt’s direct heirs and the American Museum of Natural History located in Theodore Roosevelt Square.

The Commission also evaluated the Christopher Columbus statue, a 13-foot-high marble sculpture of the explorer standing atop a 76-foot-high granite column at the edge of Central Park, erected in Columbus Circle. Designed by sculptor Gaetano Russo to honor the 400th anniversary of the explorer’s first voyage to the Americas, the statue was sponsored in 1892 by Italian-Americans and the New York-based newspaper Il Progresso Italo-Americano. Italian-Americans view the Columbus statue as a beacon to show immigrants’ love for, and embrace by, America.

In 2012 Japanese artist Tatzu Nishi created his first American installation “Discovery Columbus,” a temporary structure of a modern apartment at the top of the column encircling the sculpture of the explorer. The “apartment” stood some six stories high supported by scaffolding and access stairs. Attendees who made it to the top of the artist’s first American public installation stood at Columbus’ feet, literally.

By 2017 the original monument was spray-painted with the words “Hate will not be tolerated, something is coming.” Critics want the sculpture removed as a symbol of “the genocide and enslavement of indigenous people.” The New York State Board for Historic Preservation in 2018 voted unanimously to list the Columbus statue on the New York Historic Register and in 2018 the National Park Service listed the Columbus Monument on the National Register of Historic Places.

Sports Teams

Trademarking names in the world of sports demonstrates how history, times and attitudes can move the dial from lucrative legacies to name-targeting, and from riches to dried-up revenue streams. The former Washington Redskins, a $3.4 billion franchise, according to Forbes, and one of the most famous and successful in sports history, is now the Washington Football Team. From the team’s start in 1906, to its name as the Boston Braves in 1932, to the Washington Redskins, the name-identification history and identity crisis could support a television mini-series. The evolution of the team’s name and the ongoing fight to retain the valuable six trademarks has been published in dozens of articles and in media on sports, cultural heritage, civil rights and intellectual property. The short version is that Native Americans made episodic complaints over decades about the name and the stereotypical depiction of the mascot and imagery. The Bureau of Indian Affairs, part of the U.S. Department of the Interior, however, did not find it derogatory and expressed gratitude for an all-Indian half-time program performed by more than 80 tribes during the NFL Washington Redskins-Dallas Cowboys game in Washington. In 1977 the irony of
those two teams playing one another did not seem to resonate.\textsuperscript{40}

By the 21\textsuperscript{st} Century Native American groups contested the Redskins name, trademarks, and mascot. Nonetheless, after battles in the US Patent and Trademark Office, the Trademark Trial and Appeal Board, the Fourth Circuit Court of Appeals, and ultimately the Supreme Court the team won the right to retain the Redskins name and marks in the legal system. The Redskins were an unintended beneficiary of the legal success of the music group \textit{The Slants}, who challenged the refusal to register their name as a trademark.\textsuperscript{41} The word “slant” was deemed a “slur” under a disparagement provision in federal trademark law dating from 1946 that is grounds for an examiner to deny registration.\textsuperscript{42} The United States Supreme Court held the disparagement clause was an unconstitutional government control of speech under the First Amendment.\textsuperscript{43} NFL team owner Daniel Snyder of the then-Redskins offered a “read my lips” moment by stating in capital letters—yes, he said to use capital letters—that he would NEVER change the name.

But it was neither the courts nor the film industry that caused the owner an eat-your-words sequel.

The longstanding Redskins name and brand was unseated by names the owner had never heard of until 2020 and whose names before 2020 had no brand: George Floyd (d. 2020), Breonna Taylor (d.2020), Ahmaud Arbery (d.2020). After Black Lives Matter protests and worldwide revulsion at racist killings in the USA, retail stores started removing Redskins merchandise. Corporate America stepped forward. The NFL Madden video game franchise stopped using the team’s name or brands. Federal Express, a major sponsor, and other sponsors had concerns. A few days later in July 2020 the team agreed to a name change. Whatever the views of the owner and fans, the franchise was confronted with an economic reality of halo-tarnish and revenue loss.

\textit{International Impact: The Tate Museums, Cecil Rhodes, Winston Churchill}

London established “The Commission for Diversity in the Public Realm” in summer of 2020.\textsuperscript{44} Although the name sounds like a Dickensian department in Chancery from \textit{Bleak House},\textsuperscript{45} the Commission was tasked in 2020 by the Mayor of London “to review the city’s landmarks [to] consider which legacies should be celebrated.” “Murals, street art, street names, statues and other memorials will come under scrutiny,” according to the Mayor, as well as the Tate museums named for industrialist Henry Tate. “While it is important to emphasise that Henry Tate was not a slave-owner or slave-trader,” the Mayor explained, “it is therefore not possible to separate the Tate galleries from the history of colonial slavery from which in part they derive their existence.”\textsuperscript{46}

The Tate, on the other hand, defends the Tate name on its website: “[b]oth [Tate and Lyle (Tate’s business partner)] were self-made men who were never slave owners or lived off of the proceeds of slavery.”\textsuperscript{47} The Tate explains its conclusion by noting the Slave Trade Act of 1807\textsuperscript{48} abolished the British slave-trade before the birth of Henry Tate, and the Slavery Abolition Act of 1833\textsuperscript{49} became law when Henry Tate was 14 years old.

Tate is not the only British name of controversy. Cecil Rhodes, for whom Rhodesia--now Zambia and Zimbabwe—was once named, was wedded in practice and politics to colonial imperialism. The City of Oxford is demanding removal of his statue at Oriel College, Oxford University.\textsuperscript{50} The campaign banner of the movement \#Rhodes Must Fall led to removal of Rhodes’ statues in South Africa, indicting his racist past, his restriction on voting rights of Black Africans, and his role in creating apartheid.\textsuperscript{51} Rhodes Scholars, including recipient President Bill Clinton, carry the Rhodes name as an honorific, notwithstanding Rhodes label by some as a “quintessential racist” and a “British imperialist.”
Winston Churchill’s name has been summoned as a national testament during World War II to British fortitude and beacon for hope and endurance during the COVID-19 pandemic challenges of 2020. However, his statue in Parliament Square, London was painted with Black Lives Matter during demonstrations, linking him to a colonial past and misguided actions in Africa. The statue of Seventeenth Century slave trader Edward Colston was toppled and thrown into Bristol Harbor by protestors in 2020, replaced a few weeks later by a new sculpture of Jen Reid, city leader of Black Lives Matter, removed in turn by city workers.\textsuperscript{32}

**National Reckoning**

Success as a nation requires memorializing the stories and the names of the marginalized as well as the majority. Confederate icons, such as they are to some, do not need to disappear, nor should they be melted into an historical miasma. On the contrary, it is important for the nation to agree that the American narrative has good, bad and ugly. Berlin has reminders everywhere about the Gestapo, the National Socialist Party and the death camps but it does not venerate or memorialize Adolf Hitler, something outlawed by German law without erasing that indelible stain.

The antebellum vision solidified in the laws and executive orders have frozen the public sphere, notwithstanding a view anathematic to contemporary realities of social justice. The Black Lives Matter movement has been depicted by the Executive Branch of government as one of “violent extremists’ \textsuperscript{[a]} campaign against our country[‘s] public monuments, memorials, and statues”\textsuperscript{53} and those who challenge the Confederate story as the one for this nation are labelled criminals, “rioters, arsonists, and left-wing extremists.”\textsuperscript{54} But the words described in the Executive Order could be well applied to those championing the Confederate flag in the Capitol rotunda and inner sanctum of America’s legislative branch: “They have led riots in the streets...killed and assaulted government officers...and even seized an area ...where law and order gave way to anarchy.”\textsuperscript{55}

Laws that maintain the status quo on the Confederacy marginalize minority and dissenting voices and allow the government to transmit a one-track monophonic message to a nation that needs to hear in polyphonic surround sound. Jim Crow’s residual effect in laws and regulations, and election barriers that disenfranchise minorities, are unconstitutional and violate basic human rights. That racial inequity is no longer tolerated is precisely the point repeated time and time again by the Civil Rights Amendments in the Nineteenth Century, the Civil Rights Movement in mid-Twentieth Century and Black Lives Matter in the Twenty-First.

The White House, Congress and the public need to acknowledge that the arbiters of public space and the place names that form the urban landscape can no longer be decided by Rudyard Kipling’s “white man” or the white saviors of American cinema.\textsuperscript{56} After centuries of secondary-ness for persons of color and women of all colors, we live in a time of reevaluating the meanings and locations of monuments.

Many more voices want to be included as arbiters of “our” history and what belongs in the public space. Who decides how the past is owned--and thereby controls how it presents--invokes the broader question as to who lays claim to history and whose voices are empowered to shape the narrative. Criminalizing contempt for historic iconography is neither a path to consensus nor marking a trail to a multi-tiered national narrative. That requires a major re-contextualization of the public sphere, from naming places to reconfiguring public statuary and imagery.

**Endnotes**

1. Artist: James Earle Fraser; Title: *Equestrian Statue of Theodore Roosevelt*; Date: 1939 (creation), 1940 (unveiling); Medium: Bronze; Size: 14’ x 7’ x 10’.

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4. Jackie Robinson (1919-1972), inducted in the Hall of Fame in 1972, played first and third base; his primary position with the Brooklyn Dodgers was second baseman.

5. Ecclesiastes 1:9, King James Bible Version 21 (The thing that hath been, it is that which shall be; and that which is done, is that which shall be done; and there is no new thing under the sun.; W. Shakespeare, Sonnet 59 (1609)) (If there be nothing new but that which Hath been before,...with a backward look, even of five hundred courses of the sun...) (1, 5-6).


7. www.wikipedia.org/wiki/john_harvard_clergyman; see also https://www.alumni.harvard.edu/giving

8. Artist: Daniel Chester French; Title: John Harvard; Year: 1884; Medium: Bronze; Size (figure only): 41 x 38.6 x 65.

9. The author was awarded her J.D. from Boalt Hall.


11. Pacific Railroad Act of 1862, 12 Stat. 489 (July 1, 1862)

12. An Act to Prevent the Further Immigration of Chinese or Mongolians to This State [California](1858).

13. An Act to Protect Free White Labor Against Competition with Chinese Coolie Labor [short title: Anti-Coolie Act](1862) (intended to appease white laborers suspicious of Chinese regarding salary competition created during the Gold Rush); (1862)(unpublished opinion of the California Supreme Court holding state law unconstitutional); see also Lin Sing v. Washburn, 20 Cal. 534 (July 1862).


15. Cal. Senate Concurrent Res. No. 122, Ch. 132 (August 28, 2014) (“Resolved, ...Ours is a state with an imperfect history where intolerance spurred the enactment of unjust discriminatory laws that have too often denied minority groups access to the promise of America, that all men are created equal. Today that struggle continues, and learning from our past will help enable us to travel further down the path toward building a more perfect union; and be it further; Resolved, That the Legislature apologizes for the enactment of past discriminatory laws and constitutional provisions that resulted in the persecution of Chinese living in California, which forced them to live in fear of unjust prosecutions on baseless charges, and that unfairly prevented them from earning a living. The Legislature apologizes for these acts and reaffirms its commitment to preserving the rights of all people and celebrating the contributions that all immigrants have made to this state and nation...”).

16. Senate Joint Res. No. 23, Ch. 124 (August 28, 2014)(“WHEREAS, It is important that the United States Congress make a formal and sincere apology for the enactment of the discriminatory laws that adversely affected Chinese Americans, so that democracy, justice, and equality for all of its citizens can be achieved, and to strengthen the diversity in the United States that contributes to the country’s economic, cultural, technological, academic, and political growth; now, therefore, be it

Resolved by the Senate and the Assembly of the State of California, jointly, That the Legislature requests Congress to adopt resolutions of apology to the Chinese American community for the enactment of the Chinese exclusion laws; ...


18. Executive Order 9066 Resulting in the Relocation of Japanese 1942 (February 19, 1942); An Act of March 21, 1942, to Provide a Penalty for Violation of Restrictions or Orders with Respect to Persons Entering, Remaining in,

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Leaving, or Committing Any Act in Military Areas or Zones, Pub. Law 77-503, 56 Stat 173 (March 21, 1942); https://www.ourdocuments.gov/exec order 9066; see also https://nps.gov/articles/internment (the number of Japanese-Americans and Japanese relocated to camps are reported variously as 112,000, 120,000, 122,000 and 123,000).


https://www.history.com/topics/wwii/japanese internment (“At Congressional hearings in February 1942, a majority of the testimonies, including those from California Governor Culbert L. Olson and State Attorney General Earl Warren, declared that all Japanese should be removed.”)[Warren provided maps and data to General DeWitt in 1942 used by President Roosevelt for Executive Order 9066]; wiki.org/wiki/HUAC/Dies Committee][House on Un-American Activities Committee (1938-1975) was referred to as the Dies Committee for the period 1938 to 1944 under the chair-ship of HUAC founder Martin Dies, Jr. (Dem-Texas). Dies headed the War Relocation Authority.


22. Earl Warren, THE MEMOIRS OF EARL WARREN (1977), p. 149 (“I have since deeply regretted the removal order and my own testimony advocating it, because it was not in keeping with our American concept of freedom and the rights of citizens. Whenever I thought of the innocent little children who were torn from home, school friends, and congenial surroundings, I was conscience-stricken. It was wrong to react to (sic) impulsively, without positive evidence of disloyalty, even though we felt we had a good motive in the security of our state.”); see also Brian Niiya, https://encyclopedia/densho.org/earl_warren

23. Brown v. Board of Education of Topeka, 347 U.S. 483 (1954) (“In the field of public education the doctrine of ‘separate but equal’ has no place;” segregated schools are “inherently unequal.”).

24. 347 U.S. 483, supra, U.S. Const., Amend XIV.

25. 347 U.S. 483 (1954) Warren, C.J.E. (“Segregation of white and colored children in public schools has a detrimental effect upon the colored children. The impact is greater when it has the sanction of the law, for the policy of separating the races is usually interpreted as denoting the inferiority of the negro group. A sense of inferiority affects the motivation of a child to learn. Segregation with the sanction of law, therefore, has a tendency to [retard] the educational and mental development of negro children and to deprive them of some of the benefits they would receive in a racially integrated school system.”

26. Plessy v. Ferguson, decided in 1896, upheld the constitutionality of ‘separate but equal.’ Mr. Plessy, nee Homère Patrice Adolphe Plessy, a free French-speaking Creole in New Orleans, bought a first-class ticket for passage on the East Louisiana Railroad. On June 7, 1892, he boarded a “whites only” car and then refused the conductor’s order under Louisiana’s Separate Car Law to move to the one for “colored races.” He was arrested, forcibly removed from the train and spent a night in jail. The civil rights association with whom this incident was planned posted a $500 bond for his release and filed a legal action claiming the Separate Car Law was a violation of the Thirteenth and Fourteenth Amendments. The U.S. Supreme Court upheld Louisiana law, whereby “separate but equal” for services from accommodations to education became the constitutional mantra for segregation. Only Justice Harlan dissented, opining “Our Constitution is color-blind, and neither knows nor tolerates classes among citizens. In respect of civil rights, all citizens are equal before the law....” Mr. Plessy pled guilty after the Supreme Court decision and paid the $25 fine.

27. UCI News (March 12, 2014).

28. The Ayala name was replaced with the new name “UCI School of Biological Sciences.”

29. M. Wadman, Science (July 20, 2018)(UCI undertook an investigation and issued a Report in which the allegations of sexual misconduct were “substantiated” but the actual Report was detached and inaccessible.).


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winner was refused by Georgia Governor Brian Kemp.


33. Information regarding Defacing, Destroying, Replacing or Removing Monuments, Office of the Georgia Attorney General (July 1, 2020).

34. Matal v. Tam, supra, n.108.
35. Artist: James Earle Fraser; Title: Equestrian Statue of Theodore Roosevelt; Date: 1939 (creation), 1940 (unveiling); Medium: Bronze; Size: 14’ x 7’ x 10’.

37. The author attended the Discovery Columbus exhibition.


42. Lanham Act of July 1946, ch 540, 60 Stat 428 § 2a; 15 USCA §1052(a)(prohibiting registration of marks that “may disparage…persons, living or dead, institutions, beliefs, or national symbols or bring them into contempt, or disrepute.”)
43. Matal v. Tam, supra, n. 117.
46. https://artlyst (June 8, 2020), Do Tate Galleries Have A Slavery Past (An independent assessment of the official Tate statements and examination of British sugar industry, slavery, and the wealth sources of individual collectors who commissioned works from J.M.W. Turner and Sir Joshua Reynolds).
47. Tate.org/about us/tate-galleries-and-slavery (last visited November 6, 2020).
48. The Slave Trade Act of 1807 (unlawful for British ship or British subject to trade in enslaved persons).
49. The Slavery Abolition Act of 1833 (dismantling of plantation slavery in tropical British colonies but perceived by some as freeing British North American colonies from slavery, resulting in freedom trails and ultimately Canada as a destination of the Underground Railroad.).
50. Justin Parkinson, Why is Cecil Rhodes Such a Controversial Figure (April 1, 2015), https://www.bbc.org/news/magazine.
52. Artist: Marc Quinn, Title: A Surge of Power (Jen Reid); Date: June-July 2020; Medium: Resin.
56. Rudyard Kipling, “The White Man’s Burden” (1899) (“Take up the White Man’s burden -Send forth the best ye
breed - Go bind your sons to exile, To serve your captives’ need; To wait in heavy harness, On fluttered folk and wild
-Your new-caught sullen peoples, Half devil and half child.”).
Secrets of the Coaching Carousel: Whose House Is This?

Joseph Esses

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Introduction

The fate of college sports is in a precarious position. The Supreme Court could forever change the way the National Collegiate Athletic Association (‘‘NCAA’’) operates after its decision in the antitrust case, NCAA v. Alston. State legislatures across the country have enacted and are continuing to enact legislation divergent from NCAA rules and regulations. Many legal issues are affecting the very fabric of college sports that individuals have come to know and love. Although the NCAA seems to be under attack from external actors, perhaps, the most overlooked legal issues arise out of the ever-changing landscape of the inner workings of the NCAA’s member institutions. Coaching positions across the country have become more transitional while the proprietary information coaches develop is now more valuable and important than ever.

Since the beginning of the NCAA, academic institutions have participated in collegiate athletics to build pride within the student and alumni communities, generate alumni donations, and increase campus morale. The NCAA’s mission is to “govern competition in a fair, safe, equitable, and sportsmanlike manner, and to integrate intercollegiate athletics into higher education so that the educational experience of the student-athlete is paramount.”

College football, perhaps, is the sport that generates the most controversy, as everything is fluid. The player transfer portal has become busier than any time in history, athletic departments regularly switch conferences, rule changes made by the NCAA are an every-week occurrence, and coaches are on a constant carousel moving from one position to another. With college athletic departments becoming increasingly concerned about their bottom line, the focal point of a college athletic department is no longer about developing student-athletes, but instead developing winning teams to drive revenue. The days of coaches, like former Penn State Head Coach Joe Paterno, staying at a single institution for half a century are long over. Coaches are no longer staples at their institutions, but rather treated like collectibles. As such, coaches now face the reality that losing football games no longer just means losing a game, but instead leads to them losing their way to support their family. As coaches’ tenures become shorter, the need for coaches to protect their proprietary information has never been greater.

This article is broken into two sections. Section I will discuss how the Football Bowl Series (‘‘FBS’’) college coaching environment has developed from lifelong tenures to short-term stints at universities. The tenures of FBS coaches at their respective institutions have never been more temporary. Many coaches are frequently changing allegiances whether it be to climb the coaching ladder to more prestigious roles or making lateral moves to different institutions. Notably, the proprietary information that these coaches develop has never been more vital to their success.
Section II considers the law of trade secrets in the United States and how it applies to college coaches. The success of college coaches on the gridiron has become progressively dependent on the proprietary information that they develop such as recruitment strategies, training regimens, playbooks, and the newfound reliance on data. In order to maintain these competitive advantages through their proprietary information, coaches must ensure that they are taking the necessary steps to guarantee that this information remains confidential. Further, Section II will argue that it is reasonable for college head coaches to be granted ownership of their trade secrets rather than the athletic departments that employ them for a transient period.

I. Everchanging FBS Coaching Landscape

There are very few North American sports that generate more passionate fan bases than FBS College Football. These fans generate an incredible amount of revenue for their favorite teams. Of the fifty-three public Power Five conference schools, college football generated $4.1 billion in fiscal revenue over the course of the 2019-2020 football season. This equates to about $78 million per school within these five conferences. According to Oregon State Athletic Director Scott Barnes, the revenue generated by football makes up “almost 85%” of the entire athletic department’s budget for any given year. College football is not just a game to these athletic departments, but the main source of revenue to allow opportunities for other student-athletes. Athletic departments can generate the most revenue when their college football program achieves success and participates in postseason contests. The emphasis on the need to win for FBS schools has never been greater which, as discussed below, results in coaches being exchanged like trading cards and not the valuable assets that they truly are.

College football is a major business and has been since the 19th Century. However, now more than ever, there is an urgency to understand trade secrets within the sport and understand ways that football coaches can protect themselves and their families from being in positions where they are unable to earn a living.

A. College Football Does Not Just Impact Athletics

As stated above, college football is more of a business than it is a sport. The success of these teams has a direct correlation to the sponsorship, merchandise, and ticket sale revenue of these programs. Not only can the success of the football program help generate revenue for the athletic department, but the success of the program can also help the university as a whole. Football is the proverbial “front porch” of the entire institution and offers outside actors a glimpse into what the school has to offer. Athletic success can spill over to positively influence admissions for institutions of higher education through the “Flutie Effect.” Not only does success on the gridiron have a direct impact on admissions, but college football success is also a factor in the ability of an institution to generate revenue through donations for other facets of the University. Since there has become a new importance to the success of the college football program, the coaching staff of college football programs has become a key asset for institutions.

B. College Football Coaching Staff Framework

College football has a very complex structure in terms of the individuals who are responsible for the program’s success. In order to better understand the importance of trade secrets in college football, there must be an understanding of how these programs are structured. On top of each institution is the President of the University, the ultimate decision-maker. The President is typically responsible for the hiring of the Head Coach. A past President of Texas A&M University, Robert Gates, once said that managing the University’s college football program caused him “more stress than any job [he’s] ever had.” Of importance is the fact that Mr. Gates also served as United States Secretary of Defense and Director of the CIA. The vast majority of this stress was caused by the hiring and firing decisions Mr. Gates was forced to make in relation to the Texas A&M football program.
In response to this stress-inducing business, major institutions have dozens of individuals responsible for their respective college football programs. At the top of the pyramid and the “CEO” of each program is none other than the Head Coach. As the Chief Executive Officer of their program, head football coaches are often the highest-paid government employee in their state. In January 2004, twenty-three college football coaches earned $1 million; in 2012, sixty-six major college football coaches had salaries in excess of $1 million. There is no more important hire a university can make in today’s climate than a college football head coach. Head coaches are responsible for a myriad of other positions including their Coordinators, Assistants, Directors of Football Operations, Recruitment Directors, Video Coordinators, Graduate Assistants, and Student Managers. With much power comes much responsibility, coaches are expected to ensure their subordinates are properly executing their job and the football program is running like a well-oiled money-making machine. If a coach does not meet the standards expected of him by the administration and fan base, he will quickly find himself on the Carousel.

C. Coaching Carousel
If the head football coach is not generating enough revenue for his institution, he will more likely than not get fired. Coaches most frequently get fired for not winning enough or not bringing enough positive attention to their institution to help generate revenue. Courts have allowed programs to terminate for cause the contracts of coaches who have performed poorly. According to Business Insider, the average tenure of an FBS head coach is just 3.8 years. Even further, 68% of FBS program head coaches have been at their school for less than five years. This means that about seven out of ten fifth-year seniors will not play for a coach that recruited them while they were in high school. Even making it five years with the same program is a major feat in today’s college football climate. Former Florida State Head Coach Willie Taggart was fired from his role as the top dog of the Seminoles program after less than two years in the position. With job security at an all-time low in college football, head coaches must take steps to ensure that their competitive advantages over their opponents remain with the coaches as they change employers.

II. Trade Secrets in College Football
“In other words, PepsiCo finds itself in the position of a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game.”

A. The Law of Trade Secrets
Trade secrets are one of the most elusive and difficult concepts in the law to define. Since the days of the industrial revolution, American courts have granted ownership rights in confidential business information. The first formalized definition of a trade secret was created in the Restatement of Torts published in 1939. The Restatement stated that a trade secret was required to be kept confidential to receive protection but could include “any formula, pattern, device or compilation of information which is used in one’s business and which gives an opportunity to obtain an advantage over competitors who do not know or use it.” The factors in determining if there is a trade secret under the Restatement include whether the information: (1) is known outside of the business; (2) is known by employees and others within the business; (3) has required measures to maintain its secrecy; (4) is valuable to the competitors; (5) required time, efforts, and money to develop; and (6) would be difficult to acquire through proper means.

Trade secrets receive protection based on the laws of each state. In 1979, the Uniform Law Commission published the Uniform Trade Secrets Act (“UTSA”) to be adopted by each state to provide a legal framework for improved trade secret protection. To date, forty-seven states have adopted the UTSA; the earliest adopter, Washington, enacted legislation in 1981 and the latest adopter, Massachusetts, put the Act into law in 2018. The drafters of the UTSA defined a trade secret as “information including a formula,
pattern, compilation, program, device, method, technique, or process” that derives independent economic value which is not readily ascertainable or acquired through proper means by others who are able to gain economic value from them and the information is kept confidential through reasonable efforts under the circumstances.27 In order to bring a claim under the UTSA, plaintiff must show that (1) a legally protected trade secret exists, and (2) defendant acquired the trade secret through improper means.28 The purpose of trade secret law is to maintain “standards of commercial ethics.”29

1. Existence of a Trade Secret: Is There Anything to Protect?

In order to successfully bring a claim under the UTSA, plaintiff must prove that a trade secret exists. Plaintiff must show that its trade secret has independent economic value as the information is not generally known nor readily ascertainable through lawful means. Additionally, plaintiff must substantiate with evidence that it has taken reasonable steps to ensure that the information remains confidential.

a. Independent Economic Value

Protected trade secrets must be information that derives independent economic value. The trade secret holder must possess a business or competitive advantage over others who are not aware of the secret, but could benefit from the secret if they were aware of it.30 This economic value can either be actual or potential.31 Only trade secrets affording a demonstrable competitive advantage may be considered trade secrets.32 Value may be inferred if the owner of the trade secret can show that the information confers upon it an advantage over competitors in the industry.33 If the information is readily ascertainable by the public domain or other competitors within the industry, then the trade secret will not be able to be protected by trade secret law.34

Matters of general knowledge will typically not receive trade secret protections and will not be reserved as a secret. However, trade secrets may consist of a combination of elements of general knowledge if when the elements are formulated together, the combination provides the trade secret holder with an effective and valuable competitive advantage.35 An integration of elements that do not have independent economic value on their own may lead to a competitive advantage when synergized together.36 Thus, the independent economic value analysis depends on the end product, not the individual elements.37 A trade secret may consist of a compilation of information that is continuously used or has the potential to be used in one’s business and that gives one an opportunity to obtain an advantage over competitors who do not know of or make use of it.38

b. Must Take Reasonable Steps to Keep Information Secret Under the Circumstances

The most important factor in gaining trade secret protection is demonstrating that the owner of the trade secret has taken precautions, as are reasonable under the circumstances, to preserve the secrecy of the information.39 The analysis in determining the requisite level of reasonableness depends on balancing the costs and benefits of protecting the trade secret.40 This analysis will vary and may require estimations by experts in the field of business involved.41

2. Trade Secret Acquired Through Improper Means

Plaintiffs will have a successful claim under the UTSA if they can prove the trade secret was acquired through improper means. The UTSA defines improper means as including misrepresentations, breaches of a duty to maintain secrecy, or espionage.42 Improper means could include otherwise lawful conduct which is improper under the circumstances.43

However, there are certain methods of acquiring trade secrets that are considered proper means. Some methods of proper means include: (1) discovery by independent invention; (2) discovery by “reverse engineering” or working backward to find the trade secret; (3) discovery under a license from the owner.
of the trade secret; (4) observation of the item in public use; or (5) obtaining the trade secret from published literature. The analysis of whether a trade secret was acquired through improper means often comes down to the simple test of whether your Sunday School teacher would approve of your methods in coming across the secret, which could potentially eliminate a rival business’s competitive advantage.

a. Inevitable Disclosure Doctrine: No Way Around It

Under the inevitable disclosure doctrine, some courts will issue an injunction preventing a company’s former employee from working for a competitor, even if the employee has never signed a non-compete agreement, when it can be proven that a “defendant’s new employment will inevitably lead [the defendant] to rely on the plaintiff’s trade secrets.” Even though the departing employee of the business has neither engaged in actual misappropriation nor consented to a non-compete agreement, a court may nevertheless enjoin employment when the former employee can’t help but rely on the trade secrets in their new position. Plaintiff must show that these trade secrets will enable their competitor to achieve a substantial competitive advantage. When analyzing the inevitability of the disclosure of trade secrets, courts will look at the following factors: (1) the degree of competition between the former and current employer; (2) whether the job duties of the two positions are comparable; and (3) “the extensiveness of the former employee’s knowledge of technical or managerial trade secrets.” Courts have held that once these elements are met, plaintiff is entitled to injunctive relief in cases involving managerial executives or organizational leaders.

3. Trade Secret Ownership

Traditionally, trade secrets belong to the employer of the individual responsible for developing the information. In a usual trade secret misappropriation claim, an employer discloses to their employee a pre-existing trade secret so that the employee may perform their work. When this occurs, the employer has to provide the employee with the trade secret so they can perform their duties, while the employer still takes reasonable steps to ensure the information remains a secret to outside actors. In these situations, the trade secret will undoubtedly be owned by the employer meaning the employees may not use said information if they were to become employed by another employer, especially if their employment agreement contained a restrictive covenant related to trade secrets.

It is almost an entirely different situation where the employee is the one who develops the trade secret. When the employee is the juridical personality responsible for developing the trade secret, there are fundamentally two approaches that can be taken to determine who is the owner of the proprietary information. One theory is that the employer will still own the rights in a trade secret which their employee develops while working within the scope of their employment. Much of the reason behind this relates to the inclusion of a provision involving the ownership of trade secrets and other intellectual property within an employee’s employment agreement. Another factor for employee-developed trade secrets being owned by the employer is that the employee uses the employer’s resources in order to develop and produce said trade secrets. While it is possible for the business to own trade secrets, there are cases where an employee may own the trade secret when it was a result of their own development.

Not every trade secret that is developed by an employee belongs to their employer. There are certain situations where the employee who was the developer of the trade secret was found by the court to be the owner of the trade secret created by their individual work. In Wexler v. Greenberg, the Supreme Court of Pennsylvania held that an employee was able to use and have ownership of the trade secret when the trade secret was developed entirely by the employee. The court stated that when given the decision “whether [trade secret ownership] favors protecting a business[] from certain forms of competition or protecting an individual in his unrestricted pursuit of a livelihood, the balance would heavily favor the latter.” When courts are deciding if it is more important to protect a business from certain forms of
competition or protecting an individual in his unrestricted pursuit of a livelihood, the court should find in favor of the individual.\textsuperscript{57} When the developments are the product of the application of the employee’s own skill, “without any appreciable assistance by way of information or great expense or supervision by [the employer], outside of the normal expenses of his job”, the employee has “an unqualified privilege” to receive protections for the trade secrets which are developed.\textsuperscript{58}

Essentially the determination of trade secret ownership is resolved by analyzing: (1) whether there is a provision within the employment contract related to trade secret ownership, (2) whether the employer provided substantial resources to developing the trade secret, and (3) whether the employee would be restricted from the pursuit of their livelihood without receiving protections of their trade secrets.

B. College Football Trade Secrets

As the business of college football becomes more focused on the bottom line and creating profitable programs, FBS football teams are becoming more reliant on massive amounts of information. Some of the potential trade secrets of a college football program could include: (1) recruitment processes, (2) game strategies, and (3) data analytic methods.

1. Recruitment Strategies

One of the most commonly litigated trade secret issues across all industries is the protection for trade secrets related to marketing and soliciting new employees and customers. While college football coaches do not have to worry about customer lists, college football is unique in that coaches are in a constant process of recruiting their next stars for the gridiron. This recruitment process is vital to the success of head coaches and each coach has a different approach to their strategy.\textsuperscript{59} Subsequently, each program handles its recruitment differently.\textsuperscript{60}

The college football recruitment process is driven by each program’s ability to find talent across the country and their marketing efforts to get these potential student-athletes to sign on the dotted line come National Letter of Intent Day. As stated above, a trade secret can be a process or method that derives economic value which is not readily ascertainable or acquired through proper means by others who are able to gain economic value from them and are kept confidential through reasonable efforts under the circumstances.\textsuperscript{61} The factors in determining if there is a trade secret under the Restatement include whether the information: (1) is known outside of the business, (2) is known by employees and others within the business, (3) has been kept confidential through reasonable steps under the circumstances, (4) is valuable to competitors, (5) required time, efforts, and money to develop, and (6) would be difficult to acquire through proper means.\textsuperscript{62}

The process that each college football coach takes to recruit their players is different from coach to coach and is generally not known outside of the program. Additionally, knowing how a program’s best recruiters sign the best athletes would be incredibly valuable to other teams and competitors of the program. The recruitment strategies teams use to sign their athletes take years and countless hours to develop. When looking at the recruitment process for college football programs, the issue truly comes down to whether the information related to the recruitment process could be acquired through proper means.

Determining if it would be difficult for a competitor to acquire these recruiting strategies through proper means is a crucial element in determining if the information is actually secret. If the information can be discovered through proper means, then trade secret law does not offer protection for this information as there are no protections against discovery by fair, honest, and proper means such as reverse engineering, accidental disclosure, and independent invention.\textsuperscript{63} According to the Restatement of Unfair Competition, “improper” is defined as “theft, fraud, unauthorized interception of communications, inducement of
or knowing participation in a breach of confidence, and other means either wrongful in themselves or wrongful under the circumstances of the case."64 The recruitment strategies head coaches use to recruit players are usually very uniform but may vary from player to player. Each player who is recruited to play college football goes through the recruitment process for multiple schools. The players sometimes go through the entire recruiting process for one school just to change allegiances on National Letter of Intent Day.65 There is no breach of confidence between these players and the program when the prospective student-athlete decides to sign with another school. These players are not learning the recruitment strategies of the program by improper means, but rather, just learning about each program’s strategy for the process throughout the course of their recruitment. In general, recruitment strategies are able to be found through proper means, and therefore, do not receive trade secret protections.66 Since the information can be discovered through proper means, recruitment strategies will most likely not receive trade secret protections.

2. Game Strategies

Coordinators and head coaches spend a tremendous amount of time creating and developing their game strategies. Each program has different ways of scouting its rivals and opponents. Additionally, many teams closely guard their playbooks which are compilations of the Coach’s strategies and plays. The issue is to determine whether these game strategies of scouting opponents and properly executing the playbook can be established as trade secrets.

The first question is determining whether scouting reports of opponents could be considered a trade secret and receive protections against their misappropriation. This issue was opined in the case relating to football scouting reports and the state of Washington’s Trade Secret statute which follows the framework of the UTSA.67 The issue of whether scouting reports will receive trade secret protections ultimately relies on the analysis of whether these scouting reports are subjective opinions, not a protectable trade secret, or information, which can be protected as a trade secret. Under the Restatement (Third) of Unfair Competition, a trade secret is defined as any information that can be used in the operation of a business and is sufficiently valuable and secret to afford an actual or potential economic advantage over others.68 Since scouting reports are developed to create a valuable, competitive advantage in college football, a major business as discussed above, and the scouting process of these programs is secret; scouting reports, and the methods undertaken to create these reports, can receive trade secret protections.

It is a common undertaking for college programs to protect their playbooks from outside actors and, in general, playbooks are treated like trade secrets.69 Playbooks contain secret business information that can be protected under prevailing trade secret law. The UTSA specifically describes the subject matter of trade secret protection with the following definition: “‘trade secret’ means information, including a formula, pattern, compilation, program, device, method, technique, or process . . .”70 However, there has never been judicial analysis pertaining to the protection of sports plays as trade secrets.71 While a single play or a playbook containing general types of plays are information known in general knowledge, a series of plays designed with proper execution could be considered a trade secret.72 The ability of these coaches to properly execute their playbooks is of great importance because the ability of the team to win correlates with the production of more revenue for the athletic program and job security for the head coach. Being able to properly execute the strategies contained within a playbook produces a major competitive advantage over opponents unaware of the information contained therein. The playbooks are not publicly disclosed until after their execution and the timing and substance of these plays are not generally known to the public by the time an opposing program can take advantage of said information. Additionally, college football programs take many steps to ensure that their playbook is not released to the general public. Playbooks and the execution of a string of plays is a process that derives independent economic value, is kept confidential, and programs take reasonable steps to maintain their confidentiality; therefore,
playbooks are protectable trade secrets under the UTSA.

3. Data Analytics

Like all businesses, sports have transitioned to become increasingly reliant on data for their success. The growth of sports analytics has made college programs more and more dependent on proprietary data and mathematical methods, which are only valuable so long as the information remains unknown to competitors. Trade secrets can consist of almost any kind of information so long as the information derives economic value from its secrecy. Some information that could be used by a competitor to gain a competitive advantage includes tracking data from games and practices, analytics based on data, algorithms developing these insights, and player health information. Even though competitors could potentially generate this information on their own, the cost of doing so prevents it from being readily ascertainable by competitors.73

The data information mentioned above can be considered a legally protectable trade secret so long as the team takes reasonable steps to ensure the information remains confidential. The amount of protection required by the program will be based on the circumstances surrounding the secret. The data that football programs rely on should only be disclosed to individuals who absolutely require it to execute their job responsibilities. Additionally, the data analytics program should be password protected and encrypted to ensure that no outside actors can access it without prior authorization from the head coach or another senior coaching staff member. Data analysis methods are crucial to the success of programs and so long as teams take reasonable steps to ensure the methods remain secret, they are legally protected trade secrets.

C. Head Coaches, Not Athletic Departments, Should Own a Program’s Trade Secrets

Now that it has been established that certain game strategies and data analytic methods can be considered trade secrets, if the program takes reasonable steps to ensure their confidentiality, it must be determined who has the right to own these protected trade secrets.

Traditionally, trade secrets are owned by the employer.74 However, traditional business models have employees working as interchangeable parts of a cohesive whole. College football program operations are entirely controlled by the head coach, not the athletic department. There are a few factors dictating that the head coach of a college football program should own his trade secrets: (1) new coaches bring in their own methodologies, (2) it is unreasonable to expect a head coach to begin working at a new program with entirely new methods, and (3) the inability for a head coach to use the trade secrets he developed while working for a different program is inherently unfair and makes it almost impossible to effectively compete in a new role.

When a head coach leaves a program, the trade secrets he developed while an employee of the program leaves with him. A new head coach comes in and takes over the reins of the program and puts his own thumbprint on the program’s methodologies and procedures. There is no basis for the prior athletic department to maintain ownership of the trade secrets other than to stifle competition and the ability for the program’s former coach to properly make a living. A new coach brings a new staff that has entirely new methods and processes for gaining competitive advantages over opponents, so the past athletic department does not need to maintain rights over prior trade secrets developed by the prior staff because they are not going to be used.

College football coaches are typically not in the business of recreating the wheel. There are methods that work for some coaches that they stick with from position to position and program to program for their entire career. It is unreasonable for athletic departments to force head coaches to begin working at a new program while also having to create alternative methods that were already developed at their previous
administration. There is no reason or basis for doing so other than to stifle competition and make it increasingly difficult for coaches to be able to properly do their job and make a living. Additionally, the inevitable disclosure doctrine would make it seemingly impossible for coaches to move from program to program as it would not allow them to join competitors as doing so would inevitably disclose the trade secrets of their prior program. The application of the inevitable disclosure doctrine in this fashion is inherently unreasonable and unfair to be applied to college football head coaches. Coaches will be unable to work and provide for their families simply because the trade secrets, which they developed, now belong to their former program. It is unreasonable to not allow these coaches to benefit from the trade secrets that they developed after they are terminated from their position.

Apart from being unreasonable, the notion that a head football coach can not use the trade secrets in which he developed during a brief period at a certain school is blatantly unfair. The tenure of college head coaches is more temporary than ever in comparison to what it once was. These coaches are at schools for a limited amount of time. If the protections of the trade secrets belong to the athletic department and not the coach, the coach may hold back some of their strategies and methodologies to avoid losing protections over them after their tenure is over. Allowing coaches to retain protections over their trade secrets is to the benefit of both the program and the coach because it allows coaches to not have to worry about losing ownership of their strategies while leaving everything out on the field to win for their program.

When there is not a provision within an employment agreement related to the ownership of the developed trade secrets, the rights in these trade secrets should belong to the coach. In developing the trade secrets related to college football, the development is not an incredibly resource-driven process and, therefore, little weight should be given to the resources that the athletic department provides to the coach during his tenure at the school. Additionally, the coach could have developed these trade secrets prior to his employment at the university and, thus, the trade secrets would not have been developed using the athletic department’s resources regardless. Finally, head football coaches would be restricted from the pursuit of their livelihoods if they are not able to receive protections for the trade secrets they develop which are extremely important to their profession and their ability to provide for their families.

As the program’s CEO, head coaches are the catalysts for developing trade secrets that create competitive advantages for their programs. These coaches should be rewarded for their development by being considered the owners of the trade secrets they generated, and, therefore, not owned by the program prior to their hiring. College football coaches should receive trade secret protections for their creation of strategies and methods that provide competitive advantages for their programs, are secret, and the coach takes reasonable steps to ensure the information remains confidential under the circumstances.

III. Conclusion

There are many protectable trade secrets that are used within a college football athletic program including game strategies and data analytic models. A trade secret is information that derives independent economic value due to the information not being known to others who could obtain value from it. The information must not be readily ascertainable by proper means to those that could derive value from it. Game strategies like scouting reports and playbooks are trade secrets because they are reasonably protected from outside actors and provide teams with a competitive advantage over their opponents. Similarly, data analysis methods are protectable trade secrets as they provide competitive advantages over opponents so long as the program takes reasonable steps to maintain the methods’ confidentiality and secrecy.

Although trade secrets are traditionally owned by the employer, in the context of a college football program’s trade secrets, head coaches should be the owner of the trade secret protections. College football coaches create new trade secrets, or use their previously developed trade secrets, when they change
schools. A new coach does not use the trade secrets of a previous staff so there is no disclosure of trade secrets to the new administration. Even though coaches are hired to provide competitive advantages to their programs, the trade secrets they develop, which provide this competitive advantage, should not belong to the school. College Coach tenures are far too short in today’s college football environment. Granting ownership of the trade secrets that these coaches develop to an athletic department, which is less likely to use them, is not only unreasonable but blatantly unfair.

Trade secrets will become an essential facet of the business of college football in the foreseeable future. Although these trade secrets are developed within the scope of a head coach’s employment, the coach should still be the owner of these trade secrets as the alternative directly conflicts with the coach’s ability to make a livelihood. College football head coaches should be aware of the law of trade secrets before entering into their next contract.

Endnotes


2. Power Five Conferences include Atlantic Coast Conference, Big Ten, Big 12, Pac 12, and Southeastern Conference with a total of sixty-five collegiate institutions, including the University of Notre Dame. Of these sixty-five institutions, twelve institutions are private research institutions with no revenue statistics in the public domain.


7. Cleverly titled the “Flutie Effect” after former Boston College quarterback Doug Flutie and his legendary “Hail Mary” to defeat undefeated Miami on national television. Boston College has stated the win played a major role in the increase of applications to Boston College for the following decade. See Pope, D.G., J. Pope (2009), “The Impact of College Sports Success on the Quantity and Quality of Student Applications,” Southern Economic Journal, 75(3), at 750–780.

8. See Frank, R.H. “Challenging the Myth: A Review of the Links among College Athletic Success, Student Quality, and Donations,” John S. and James L. Knight Foundation Commission on Intercollegiate Athletics. (2004) (the more wins an athletic department had in a given year, the amount of donations from alumni increased equally).


11. Gibson, Charlotte. Who’s Highest Paid In Your State? ESPN. (2020) (Twenty-eight college football coaches are the highest paid government employees within their state. These states include: South Carolina, Alabama, Michigan, Texas, Georgia, Indiana, Oklahoma, Florida, Pennsylvania, Nebraska, Iowa, Washington, Ohio, Wisconsin, Utah, Arkansas, Illinois, Louisiana, Tennessee, Minnesota, California, Mississippi, Colorado, New Jersey, Wyoming, Idaho, New Mexico, and Nevada [list from highest paid employee to the lowest ($9.3 million to $602,000)].


14. See Change v. Univ. of R.I., 606 F. Supp. 1161, 1256 (D. R.I. 1985) (identifying a win loss record as an objective measure for evaluating a coach and terminating him for cause because of the legitimate needs of the business)

15. Gaines, Cork. Most College Football Players Will be Forced to Change Head Coaches At Least Once In Their
16. Id.
17. Id.
19. PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1270 (7th Cir. 1995) (the inevitable disclosure doctrine prohibits employees from working for a competitor when doing so would all but guarantee the disclosure of trade secrets).
21. Vickery v. Welch, 36 Mass. (19 Pick.) 523, 525 (1837) (one of the first American cases involving the protection of trade secrets, in this case it was a recipe for chocolate).
22. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (AM. LAW INST. 1939).
23. Id.
26. Id.
27. Id.
30. Id.
31. UNIF. TRADE SECRETS ACT § 1(4) (UNIF. LAW COMM’N 1996).
33. Id.
34. Buffets, Inc. v. Klinke, 73 F.3d 965, 968 (9th Cir. 1996) (holding that ordinary recipes will not receive trade secret protections as they are readily ascertainable in the public domain).
35. Rivendell Forest Products, Ltd. v. Georgia-Pacific Corp., 28 F.3d 1042, 1045 (10th Cir. 1994).
36. Buffets, 73 F.3d at 968.
37. Id.
38. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (AM. LAW INST. 1939).
39. Enter. Leasing Co. of Phoenix, at 199.
40. Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 179 (7th Cir. 1991).
41. Id.
42. UNIF. TRADE SECRETS ACT § 1(1) (UNIF. LAW COMM’N 1996).
43. E. I. du Pont de Nemours & Co., Inc. v. Christopher, 431 F.2d 1012 (5th Cir. 1970) (airplane flight used as aerial surveillance to determine the layout of a construction project was still considered improper means even though it was entirely legal to do so sans the purpose was to discover a competitor’s trade secret).
44. Id at cmt a.
45. PepsiCo, 54 F.3d at 1269.
46. Id.
47. Id.
49. PepsiCo., 54 F.3d at 1270.
51. Id.
52. Id.
53. Solomons v. United States, 137 U.S. 342, 346 (1890) (“That which he has been employed and paid to accomplish becomes, when accomplished, the property of his employer.”)
54. Id.

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56. Id at 476.
57. SI Handling Sys., Inc. v. Heisley, 753 F.2d 1244, 1261 (3d Cir. 1985).
61. See supra Section 2(A) regarding the UTSA definition of a trade secret.
63. UNIF. TRADE SECRETS ACT § 1(1) (UNIF. LAW COMM’N 1996).
64. RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 43 (1995).
70. UNIF. TRADE SECRETS ACT § 1(4) (UNIF. LAW COMM’N 1996).
71. The author is unaware of any suit currently being brought regarding playbook protection; however, it should be noted that a play’s formation was successfully registered as a copyright with the U.S. Copyright Office in 1985. Reg. TXu-215-357. (A Texas coach registered what he called the “I-Bone Formation,” which is a cross between the power I and wishbone formation.) See Craig Neff, Whose Bone Is It, Anyway?, Sports Illustrated, Jan. 23, 1989, at 7.
72. See Capital Asset Research Corp. v. Finnegan, 160 F.3d 683, 686, (11th Cir. 1998) (indicating that the special combination of otherwise unprotectable information may qualify for trade secret protection if the newly formed compilation of common elements has not been previously discovered in the field. Even if all of the information is publicly available, a unique compilation of that information, which adds value, also may qualify as a trade secret).
73. United States v. Wilson, 900 F.2d 1350, 1356 (9th Cir. 1990).
75. PepsiCo., 54 F.3d at 1270.
The NFL-Amazon Agreement vs. Antitrust Legislation: The Future of The National Football League in OTT Services

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I. REPLAYING THE NFL’S BROADCASTING HISTORY
The National Football League (NFL) has aired professional football games on linear television since 1939 and is currently, “the number one programming franchise on ad-supported TV.” Linear television refers to the conventional, free method of turning on a TV, selecting a program, and watching what was airing at that scheduled time. In the past, each NFL team contracted with the networks themselves for their own broadcasting agreements. However, in 1961, Congress made an exception to The Sherman Antitrust Act, allowing the NFL to make broadcasting agreements directly with the networks on behalf of all the participating football teams. From 1994 to 2014, the NFL had an exclusive contract with DirecTV. Under this agreement, for the first time, sports fans had to pay a monthly subscription fee to access to any Sunday games played outside of their home cities.

As technology evolves, traditional entertainment has to keep up, or be left behind. As of late, over-the-top (OTT) services, also known as streaming services, have become one of the most popular ways to watch programming. An entire generation, The Cord-Cutters, have canceled their multichannel television services to strictly consume entertainment on OTT platforms, such as Netflix and Disney+. Unlike linear television, OTT platforms distribute content over the internet, rather than over cable or satellite, allowing OTT content to be accessible anywhere, on any device, at any time.

Due to this transformation in the entertainment industry, the NFL has started its transition onto streaming platforms. The 2021 NFL distribution agreement granted exclusive airing rights to Amazon Prime Video (Amazon), an OTT platform, for the first time in history. Since OTT services are novel, the courts have not addressed whether the Sherman Act broadcasting exception applies to the NFL’s exclusive streaming agreement. This article will analyze whether the Sports Broadcasting Act of 1961 safeguards the NFL’s exclusive broadcasting agreement with Amazon. Following a review of the relevant law, this article will discuss why this agreement violates antitrust legislation under Section I of The Sherman Act.
II. KICKING OFF THE IMPORTANCE OF ANTITRUST IN THE NFL

A. Tackling Antitrust Legislation within the NFL

Antitrust laws serve to, “promote competition in open markets.” Consumers face exploitation without competition among market participants. Antitrust legislation protects consumers from having a limited range of options set at a significantly high cost. Antitrust law consists of, in part, The Sherman Act. Congress enacted The Sherman Act in 1890 to codify the two main goals of antitrust law. The first goal, identified in Section 1 of the Sherman Act, is to eliminate anti-competitive collusion. The second goal, as described in Section 2 of the Sherman Act, is to bar monopolies from existing within the market. While Section 2 is also of concern in the 2021 NFL broadcasting agreement, this article will focus solely on Section 1.

Specifically, Section 1 of the Sherman Act prohibits, “every contract, combination... or conspiracy which restrains trade.” The NFL broadcasting agreement with Amazon is subject to scrutiny under Section 1 of the Sherman Act’s rule of reason test to ensure the agreement does not cause an unreasonable restraint on trade. The rule of reason test examines, “the facts peculiar to the business, the history of the restraint, and the reasons why [the agreement] was imposed to determine the effect on competition in the relevant product market.” Courts apply the rule of reason test when examining vertical and horizontal agreements amongst professional sports teams. The rule of reason test is a burden-shifting analysis. The plaintiff carries the initial burden, and must establish three elements: “(1) an agreement or conspiracy between two or more persons or business entities; (2) which the persons or entities intend to harm or unreasonably restrain competition; and, (3) which actually causes injury to competition.” If the plaintiff establishes a substantially adverse impact under the preceding three elements, the burden of proof then shifts to the defendant. Here, the defendant must show, “evidence of the pro-competitive benefits of the conduct involved.” If the defendant is successful in its assertion, the burden shifts for a final time back to the plaintiff to show either the conduct at issue was not reasonably necessary, or the result of the conduct was achievable by substantially less restrictive means. While it is also important for the plaintiff to be a market participant under the rule of reason test, following past precedent, this article will assume the NFL satisfies this requirement.

B. Interception by the Sports Broadcasting Act of 1961

In 2010, the Supreme Court in American Needle v. NFL emphasized the NFL is not trapped by antitrust law. The Court in American Needle stated, “the special characteristics of this industry may provide a justification for many kinds of agreements.” In fact, Congress introduced the Sports Broadcasting Act of 1961 (SBA) as an exception to antitrust legislation. The SBA states, “Antitrust law shall not apply to any joint agreement involving organized professional team sports of football, baseball, basketball or hockey... in the sponsored telecast of the games.” Therefore, where antitrust legislation would normally prohibit an agreement like the NFL broadcasting deals, in order to protect the audience, teams, and networks, the Court decided professional sports leagues are free to make horizontal agreements by pooling team broadcasting rights for telecasting. The League lobbied to Congress to adopt the SBA because Congress permitting the NFL to control its national broadcast revenue, “assure[ed] weaker teams maintain[ed] a competitive balance among teams” Without the SBA, the NFL could not jointly contract the team’s broadcasting rights without an inquiry into the reasonableness of the agreement. The SBA was written in 1961, in an age before the concept of OTT services were in existence, to allow the NFL to pool the teams broadcasting rights. The courts have yet to comment on whether the SBA shields the NFL’s exclusive OTT broadcasting agreement from antitrust legislation.

C. DirecTV’s Interference

The NFL’s exclusive deal with Amazon is strikingly similar to the NFL’s past deal working with satellite
television. In 1994, the NFL contracted an exclusive broadcasting agreement for Sunday games with DirecTV, a satellite service provider. Before this agreement with DirecTV, fans only had access, on linear television, to two to three Sunday games played by local teams during football season.\(^{25}\) Out-of-town fans were therefore blacked out from accessing any game other than the few provided by local television since there may have been seven to ten games concurrently played on Sundays.\(^{26}\) However, after the new satellite deal, fans could watch every Sunday game that had been previously out-of-market and therefore blacked out, simultaneously, on DirecTV. To access these “Sunday Ticket” games, NFL fans, for the first time, had to pay a costly subscription fee to DirecTV.\(^{27}\)

In 2015, bars, restaurants, and other Sunday Ticket subscribers filed a lawsuit against DirecTV and the NFL claiming the Sunday Ticket exclusive agreement created anti-competitive effects and thus violated Section 1 and 2 of the Sherman Act.\(^{28}\) The plaintiffs in DirecTV argued the NFL-DirecTV agreement is susceptible to the Sherman Act analysis because the SBA does not protect the agreement between DirecTV and the NFL, it only pertains to “network broadcast television, and does not apply to non-exempt channels of distribution such as... satellite television networks.”\(^{29}\) However, in 2017, the District Court for the Southern District of California granted the defense’s motion to dismiss the claim.\(^{30}\) On appeal, the Ninth Circuit Court reversed, finding the defendants failed meet their burden of proof under the rule of reason test.\(^{31}\) The defendants then appealed to the Supreme Court. In November 2020, the Court denied certiorari.\(^{32}\) Justice Kavanaugh highlighted the Court would not review the case because it was at the motion-to-dismiss stage.\(^{33}\) However, he explained the denial was not to show solidarity with the Court of Appeals ruling or indicate the merits of the case were unworthy of review.\(^{34}\)

### III. OTT SUBSCRIBERS CHALLENGE AMAZON AND THE NFL

#### A. Amazon Prime’s Thursday Night Playbook

The NFL’s recent 2021 contracts with the various networks were groundbreaking because it was the first time a streaming service exclusively contracted with the NFL. The agreements finalized the NFL’s media rights for the next eleven years, from 2022 to 2033.\(^{35}\) The agreement states Amazon will air Thursday Night NFL games exclusively.\(^{36}\) Similarly to the Sunday Ticket, the NFL’s first exclusive satellite television package, Amazon will hold the NFL’s first exclusive streaming package.\(^{37}\) For fans to access the Thursday Night games, they must pay a subscription fee to Amazon.

While the NFL tries to keep up with the trends in technology and consumer behavior, the NFL must not violate antitrust laws while doing so. There is a chance out-of-market fans, bars, and restaurants who were once able to access Thursday Night games for free will file a lawsuit similar to the one filed against DirecTV and the NFL. If Amazon subscribers file an antitrust claim against Amazon and the NFL, the NFL may never be able to contract an exclusive broadcasting agreement with an OTT platform again. If the subscribers file a suit, they may claim the NFL is not protected by the SBA, and the NFL-Amazon broadcasting agreement could therefore create an unreasonable restraint on trade.

#### B. The SBA Fumbles Over OTT Services

The NFL-Amazon broadcasting agreement cannot avoid antitrust scrutiny because it does not appear to be exempt under the SBA. Congress stated the SBA applied to the, “sponsored telecasts of [NFL] games.”\(^{38}\) It is unknown how Congress intended to define sponsored telecasts. Therefore, the courts must now construe the SBA’s coverage for modern broadcasting technology.

The court in Shaw v. Dallas Cowboys Football Club stated, “The Supreme Court construes exceptions to the antitrust laws narrowly.”\(^{39}\) The court in Shaw also defined sponsored telecasts as free broadcasts to the public with paid advertisements airing during the programming.\(^{40}\) When deciding if the SBA encompassed...
alternative forms of broadcasting, the Court of Appeals in both *Shaw* and *DirecTV* assumed the SBA does not extend to contracts with networks or companies that provide subscription-based services, as the purpose of the SBA is to preserve the availability of NFL games on free broadcast television. Additionally, The NFL Commissioner once stated he understood the SBA as covering, “free telecasting of professional sports contests, and [the Act] does not cover pay T.V.” The NFL included a Friday game in the Amazon agreement. Friday games are a violation the SBA because the SBA specifically barred Friday and Saturday NFL games to protect fans of college and high school football. Therefore, it appears the NFL believes the SBA does not protect it from OTT agreements. The Amazon agreement with the NFL is brand new, and past courts did not mention, even in dicta, how the SBA's application would pertain to OTT services. The courts must now decide if Congress intended the SBA to cover only free broadcasting, or if it intended to cover broadcasting in all forms, therefore including OTT services. Regardless of Congress' lack of consideration for future technology when creating the SBA, interpreting the exception closely as directed by the Supreme Court, would suggest Amazon, being a subscription-based service, is not included under the SBA antitrust exemption.

However, unlike the majority of OTT platforms, Amazon runs sponsored advertisements on a select portion of content. Currently, it is unknown if Amazon will run ads on Thursday Night football games. If ads run on Amazon's Thursday Night games, Amazon could become a hybrid between sponsored broadcasting, similarly covered under the SBA, and subscription-based broadcasting, which past courts stated is not covered under the SBA. Again, the SBA did not define if it covered hybrid broadcasting services. Since the SBA's purpose as defined by the courts and noted by the NFL commissioner is to promote free telecasting, the subscription-based nature of Amazon, even with sponsored advertisements, would immediately defeat the SBA's objective. Thus, it appears a court would likely apply the SBA's limited interpretation in subscription satellite services to subscription OTT services, causing Amazon and the NFL to be susceptible for scrutiny under the rule of reason analysis.

**C. Rule of Reason Test Sacks the NFL-Amazon Agreement**

For a contract to be an unreasonable restraint on trade, the first element of the rule of reason test states there must be an agreement between two or more business entities. The NFL satisfies this element because it is a business entity that created a horizontal and vertical agreement to form the Amazon broadcasting agreement. A vertical agreement goes up and down the supply chain. While a horizontal agreement is an “agreement among competitors on the way in which they will compete with one another.” The court in *DirecTV* held the vertical agreement between the NFL and DirecTV needed to be addressed in tandem with the horizontal agreement between the teams and the NFL. Analyzing the NFL-Team agreement and NFL-Amazon agreement collectively, a court should be able to accurately determine whether the NFL-Amazon agreement violates Section 1 of the Sherman Act.

While horizontal agreements are generally illegal per se, the court in *O'Bannon v. Nat'l Collegiate Athletic Ass'n* created an exception for horizontal agreements amongst professional sports teams to be analyzed under the rule of reason test. In the NFL, the thirty-two teams are all individually owned and managed, competing directly with one another on and off the field. For the NFL to make broadcasting agreements, each team must give up their broadcasting rights to the NFL, who acts as the sole driver in pooling the rights and making joint agreements on behalf of all of the professional football teams. The individual teams would have competed against each other for broadcasting rights if they did not all give up these broadcasting rights in the NFL-Team agreement. Thus, the teams and the NFL formed a horizontal agreement. However, the NFL might argue it is exempt from antitrust legislation under this element because it holds itself out as a single entity, claiming on its face, the teams are commonly controlled by the NFL or substantially integrated in their operations, similar to a franchise. Nevertheless, the NFL is a business entity because, while the teams do, “partially unit[e] the economic interests of the parent
firm[s], the teams still have a distinct, potentially competing interests.”55 The Supreme Court in American Needle further rejected the league’s attempts to be recognized as a single entity for any purpose other than merchandising licenses.56 While it is helpful for the NFL to make collective decisions in broadcasting, production, and the game schedule for the league to successfully function as a whole, the teams and NFL are not required to work together to create telecasts. Therefore, the NFL holding the broadcasting rights for the thirty-two teams forms a horizontal agreement subject to Section 1 of the Sherman Act.

Additionally, the entities creating vertical agreements are on different levels of the supply chain and are not per se violations of antitrust law.57 While the vertical agreement between Amazon and the NFL on its own appears to be a contract between two businesses promoting market competition, it must still be analyzed under the rule of reason test. If the NFL-Amazon vertical and horizontal agreements were analyzed separately, both agreements on their own would likely appear to be reasonable.58 Yet, parallel to the vertical NFL-DirecTV agreement, the vertical NFL-Amazon contract could not have occurred without the NFL receiving votes from the teams approving the contract under their horizontal agreement. Therefore, following past precedent, a court should construe the horizontal and vertical nature of the NFL-Team agreement and NFL-Amazon agreement as a whole contract between multiple business entities to determine if airing Thursday Night NFL games on OTT services will cause an unreasonable restraint on trade.

Under the second and third elements of the rule of reason test, the NFL-Amazon agreement shows an intent to cause harm by adversely impacting consumer welfare. The court in Board of Regents emphasized increasing price and reducing output as the paradigmatic example of a restraint in trade the Sherman Act intended to prohibit.59 Congress designed the Sherman Act as a “consumer welfare prescription.”60 Any restraint that has the effect of reducing the importance of consumer preference in setting price and output is not consistent with the fundamental goal of antitrust law.61 Before the NFL-Amazon agreement, anyone in the United States could access every Thursday Night game on linear television. Currently, under the NFL-Amazon agreement, Thursday Night football will be blacked out on linear television for fans who live out-of-market. This agreement decreases output because Thursday Night games that were once accessible by everyone, will now only be accessible to consumers who pay a subscription fee. In DirecTV, DirecTV and the NFL’s biggest defense against a decrease in output was the fact that subscribing to Sunday Ticket gave out-of-market fans access to games they would never otherwise have access to on linear television.62 Conversely, airing Thursday Nights exclusively on Amazon completely removes games to which fans had access. Out-of-market fans who are unwilling or unable to pay the subscription fee will be harmed by this intentional reduction in output.63

Although the NFL and Amazon might argue they self-regulated against antitrust laws by permitting games to be broadcasted on linear networks for fans when their local teams play, satisfying consumer preference would likely require free access to all Thursday Night games.64 Since each team plays approximately one Thursday Night game in a roughly seventeen-week season, every fan is forced to pay a yearly subscription fee to access the other sixteen games. Additionally, fans who live in Oregon, for example, where there is no home team, will have no option but to purchase the subscription to have access to any Thursday Night game. Following the Supreme Court in Board of Regents, this agreement is anticompetitive because the arrangement causes prices to be higher and output lower than they would otherwise be.65 Moreover, professional sports gambling can be a career and Fantasy Football competition prizes have reached up to a million dollars.66 To be successful, those who participate will need access to every football game, not just the games shown in their local markets. These consumers will be forced to pay the subscription fee or lose out on a potential method of income. Hence, the NFL creating an exception to air games on a free network to local market consumers does not solve the fact that it is against consumer welfare to take away access to games and impose a subscription fee on them. Therefore, the NFL-Team and NFL-Amazon
agreements create a lack of output while increasing prices, thus violating The Sherman Antitrust Act.

Once plaintiffs successfully prove these points under the rule of reason test, the NFL and Amazon must show the procompetitive effects of the agreements outweigh their restraint on trade. In DirecTV, the NFL and DirecTV contended their agreements were procompetitive because DirecTV maintaining exclusive rights to out-of-market broadcasts allowed it to create, package, and promote products, such as alternative channels including Red Zone Channel and NFL.com Fantasy. These products resulted in greater fan access and NFL game exposure. Amazon offers unique services similar to the additional channels and products DirecTV offered. Amazon gives viewers the option to pay an additional fee to access add-on channels to watch sporting events Amazon does not offer through Paramount+, NBA League Pass, PGA Tour Live, and MLB.TV. The subscription to Amazon also includes access to music, gaming, reading, shopping, and delivery benefits. Amazon additionally offers a feature called “Next Gen Stats.” With Next Gen Stats, Amazon can curate statistics on players and predict plays using analytics and machine learning technology during the live game. For example, Next Gen Stats will be able to inform the viewer, “how many rushing yards a ball-carrier is expected to gain on a given carry based on the relative location, speed and direction of blockers and defenders.” This technology creates a new experience for a fan to contextualize and engage in each game. Above all, Amazon being an OTT platform gives fans greater opportunities to watch the games since Amazon is accessible on a phone, tablet, or computer; as long as someone has a Wi-Fi connection, a person in a plane could watch the Thursday Night game live. Thus, Amazon being an OTT and multi-functional platform gives subscribers benefits they would not otherwise have access to.

With the burden-shifting for the final time, the plaintiffs would then need to prove the agreements could have been made with less restrictive means. The least restrictive solution would have the Thursday Night games simulcasted, meaning airing on two different platforms at the same time. Before the NFL-Amazon exclusive agreement, NFL games streamed on Amazon concurrently with FOX Sports, who aired Thursday Night games on linear television. Continuing simulcasting, rather than giving Amazon exclusivity on Thursday Nights would allow fans to access the procompetitive effects Amazon offers, while increasing output and eliminating the mandatory subscription fee for out-of-market fans. This outcome would allow streaming on OTT platforms to increase viewer engagement and reach, with less restrictive effects. Therefore, under Section 1 of the Sherman Act, the NFL-Amazon agreement appears to violate antitrust law.

IV. PASSING THE RESPONSIBILITY TO THE SUPREME COURT
The NFL-Amazon exclusive agreement is revolutionary, but the law has yet to formally address the NFL streaming on OTT platforms. While the NFL-Amazon exclusive agreement appears to be a violation of antitrust law, the agreement could still prevail in several ways. For the contract to remain lawful, Congress could amend the SBA to include coverage of sports agreements within modern broadcasting technology. Since Congress has yet to update the SBA's coverage in over sixty years, they will likely leave this issue for the courts to resolve. The Supreme Court could protect the NFL in making subscription-based agreements. Although the Supreme Court could not review DirecTV because it was in a motion-to-dismiss stage, Justice Kavanaugh noted if the case was brought back to the Supreme Court, his position would be in favor of the NFL and DirecTV because he believes the NFL-Team agreement did not cause any by harm by pooling teams broadcasting rights together to make a joint venture. If Kavanaugh’s opinion is consistent with the view of the majority, this Supreme Court holding would essentially apply the SBA to all subscription-based services. In this scenario, since the NFL-Amazon agreement is closely aligned with DirecTV, precedent would likely indicate a court would preserve the Amazon exclusive agreement.

Furthermore, the Supreme Court could save the agreement because the Amazon subscribers may not have
standing against the NFL. Kavanaugh highlighted the plaintiffs in DirecTV lacked standing because the subscribers were not direct purchasers of the NFL or teams since the subscription fee was only purchased through DirecTV. If the Supreme Court uses the subscriber’s lack of standing to protect the NFL, the Court will thereby be enabling antitrust agreements to occur with no possible legal remedy. As technology continues to grow, lack of standing to sue the NFL for antitrust violations for subscription-based service agreements could become a detrimental precedent that restricts fans from challenging these agreements in the future. If the majority of the Supreme Court in DirecTV follow either of Kavanagh’s reasonings, the NFL-Amazon agreement will be upheld against antitrust claims. Ultimately, the future of the NFL’s exclusivity on OTT services will depend on if Congress recognizes the need to update the SBA or if Supreme Court rules reverse the Ninth Circuits ruling on DirecTV.

V. REACHING THE END-ZONE

The entertainment industry has a symbiotic relationship with technology. As OTT services increase in popularity, streaming appears to be the future platform for television, movies, and sports. If the NFL is subject to antitrust laws for exclusive OTT broadcasting agreements, the NFL could be restricted from reaching a large fan base, who solely consume OTT content. However, if the NFL is allowed to air Thursday Night games on Amazon exclusively, there is nothing to stop OTT services from obtaining exclusive licenses to stream Sunday and Monday games. The concept of free NFL games would then be completely eliminated, as each service would have its own subscription fee, harming consumers and competition. The Supreme Court seems to want to safeguard the NFL’s agreements from antitrust, without looking at the long-term effects this precedent could cause. There must be a balance between maintaining the procompetitive effects of an OTT agreement without increasing prices and reducing output of out-of-market games. As of now, the best option appears to allow fans to have access to the best of both worlds without any antitrust violations through simulcasting. Nevertheless, with technology everchanging, the next revolutionary NFL broadcasting agreement could be right around the corner.

Endnotes
5. Id.
8. See Yasser et al., supra note 3, at 189.
9. See Yasser et al., supra note 9.
10. See DirecTV, 933 F.3d at 1136, 1158.
14. See infra Section III.C defining vertical and horizontal agreements; See O’Bannon v. Nat’l Collegiate Athletic Ass’n, 802 F.3d 1049, 1069 (9th Cir. 2015).
15. Los Angeles Mem’l Coliseum Comm’n, 726 F.2d at 1381, 1391.

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16. See Yasser et al., supra note 3, at 190 (quoting Law v. NCAA, 134 F.3d 1010, 1019 (10th Cir. 1998)).
17. See Yasser et al., supra note 18.
18. See Yasser et al., supra note 18.
19. Since there is no substitute for professional football, and the NFL has control over the market for professional football telecasts, the Court in Los Angeles Mem’l Coliseum Comm’n held the NFL is a relevant market participant. Maya Rustom. The New Era of NFL Antitrust Law, the Sunday Ticket Package: Was the Ninth Circuit Ruling a Touchdown or a Penalty?, 48 Pepp. L. Rev. 537 at 563 (2021).
20. 560 U.S. at 183, 188, 130.
21. Id.
22. See Yasser et al., supra note 3, at 340.
23. See Yasser et al., supra note 3 at 833.
24. See Yasser et al., supra note 339.
26. See Id at 3.
27. See Id.
28. Id at 1.
31. DirecTV, 933 F.3d at 1136, 1144.
33. Id.
34. Id.
36. Id.
38. See Yasser et al., supra note 3, at 340.
39. Shaw, 172 F.3d 299, 301 (3d Cir. 1999).
40. See Id.
41. DirecTV, 933 F.3d 1136, 1147 (applying Shaw, 172 F.3d at 299, 301).
42. Telecasting of Professional Sports Contests: Hearing before the Antitrust Committee of the House Committee on the Judiciary on H.R. 8757, 87th Cong. 1st Sess. at 36 (Aug. 28, 1961); See also Shaw, 172 F.3d at 299, 302.
45. DirecTV, 933 F.3d at 1136, 1149.
47. See Yasser et al., supra note 3.
50. *DirecTV*, 933 F.3d 1136, 1153.

51. See *O’Bannon*, 802 F.3d 1049, 1062 (9th Cir. 2015) (Quoting *Board of Regents*, 468 U.S. 85, 101, 104 S. Ct. 2948, 2960, 82 L. Ed. 2d 70 (1984)).


53. In the 1950s, individual teams held the rights to independently license the telecasts of their games to broadcasting networks creating competition amongst the teams and networks. However, pooling the rights of the teams together under the NFL’s control creates an increase in revenue for the NFL, while simultaneously decreasing the output of telecasted games available to consumers. See *DirecTV*, 933 F.3d at 1136, 1144.

54. See Id; See also *Deutscher Tennis Bund v ATP Tour Inc.*, 610 F.3d at 820 (3d Cir. 2010).


56. 560 U.S. at 183, 204.

57. See MacLean, *supra* note 20, at 547.

58. See *DirecTV*, 933 F.3d at 1136, 1152.


61. *Board of Regents*, 468 U.S. at 85, 107, 104; See *DirecTV*, 933 F.3d at 1136, 1158.

62. *DirecTV*, 933 F.3d at 1136, 1158.

63. See MacLean, *supra* note 20, at 563.

64. While the NFL-Amazon agreement does not decrease output in broadcasts sold to television networks as *DirecTV* argued, if Amazon gains exclusive rights to any other game day which air multiple games, it is arguable that it would cause a restriction on the output of broadcast sales similar to the one addressed in In re Nat’l Football. See generally *DirecTV*, 933 F.3d at 1136, 1151.

65. See Id.


68. Id.


70. “About Amazon Prime Insider; Prime Membership Benefits.” www.amazon.com/primeinsider/about. In 2018, Amazon acquired the rights to stream Premier League soccer matches in the UK. Amazon specifically contracted for the December soccer games for three years, likely targeting the holiday period. The corporation’s strategic overlap of services offered with a single subscription exemplifies how Amazon may be using their alternative services to attract more customers onto their shopping platform. Due to this overlap, Amazon is currently fighting to prove it is not violating Section 2 of the Sherman Act. If Amazon loses, it will have to break up its various market platforms, changing the additional features offered to streaming subscribers and impacting Amazon’s strategic approach to its sports streaming agreements. See Warren, Tom. “Amazon Scores Premier League TV Rights to Stream 20 Games next Season.” The Verge, 7 June 2018, www.theverge.com/2018/6/7/17437248/amazon-premier-league-football-streaming-rights; See also Matthews, Chris, “Amazon’s Fight to Sideline Its Biggest Critic Could Cripple FTC’s Anti-Monopoly Crusade.” MarketWatch, 1 July 2021, www.marketwatch.com/story/amazons-fight-to-sideline-its-biggest-critic-could-cripple-ftcs-anti-monopoly-crusade-11625160570.

71. “AWS Powers NFL Next Gen Stats.” Amazon, Essential Library, an Imprint of Abdo Publishing, 2021. Currently there is no federal law regulating biometric data collection, however state legislation, while broad and inconsistent, has begun to introduce and define privacy regulations pertaining to biometrics. There is ambiguity over whether specific data collected such as, player’s speed and distance, is protected health information under HIPPA. Some sports leagues require players to sign over their biometric rights as a condition of employment, decreasing players’ leverage in contract negotiations and causing players to give up their intellectual property rights to their personal biometric data. It is likely the NFL included a release of medical and biometric information in its collective bargaining agreements. 

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agreement with Amazon in order for Next Gen Stats to be implemented, however with new state regulations the future of Next Gen Stats is indeterminant. See MacLean, Emilie, The Case of Tracking Athletes’ Every Move: Biometrics in Professional Sports and the Legal and Ethical Implications of Data Collection, Sports Lawyers Journal 11, 13, 17, 19. (April 1, 2020).

72. Id.

73. Next Gen Stats tracks players through a device inserted into their shoulder pads, following their every move. This data, beyond enhancing fans understanding of the game, can also assist the NFL by influencing a coach’s future game plan and increasing player safety. See generally Mitchell, Tom M. “How Machine Learning and Analytics Are Transforming the NFL.” Amazon, McGraw Hill, 2017, aws.amazon.com/machine-learning/customers/innovators/nfl/. Next Gen Stats’ real time statistics and updates will be a new experience for fans impacting the future of fantasy football and in-game betting. This technology will also help capture views from younger generations who are accustomed to acquiring data instantaneously. See generally Mons, Jan Kees. “8 Great Ways How AI Will Impact Fan Engagement.” Sport Tomorrow, 17 Mar. 2021, sporttomorrow.com/8-ways-how-ai-will-greatly-impact-fan-engagement/.


75. For out-of-market fans who only watch football, purchasing Amazon’s subscription fee may be cheaper, running at $119 a year, rather than their annual linear cable subscriptions. However, since Amazon holds exclusive broadcasting rights only on Thursday Nights, fans and restaurants trying to access the full football season, will be forced to purchase an Amazon subscription and a cable subscription or pay for multiple subscription fees to the differing OTT services simulcasting the games. However, if Amazon simulcasted Thursday Night games, viewers would have the freedom of choice on where to watch the games depending on one’s viewing preference, level of interest in the game, financial ability, and technological aptitude. See “19 Cable Alternatives to Save You Money.” 19 Cable Alternatives to Save You Money in 2021, Ramsey Solutions, 17 May 2021, www.ramseysolutions.com/budgeting/9-cost-effective-alternatives-to-cable.

76. Ninth Inning, 141 S. Ct. at 56, 57, 208.

77. Id. The dissent in DirecTV emphasized the direct purchaser rule defined in Illinois Brick Co. v. Illinois, stating indirect purchasers are restricted from recovering antitrust damages. Justice Kavanagh appears to concur with the dissent’s view on standing for this case. Following this reasoning, it could be argued that the NFL-Amazon plaintiffs are indirect purchasers since Amazon sets the price of a subscription fee, not the NFL. Thus, if the Supreme Court reverses DirecTV due to standing, under res judicata, Amazon and the NFL will likely be safeguarded from any Thursday Night antitrust claims. See also DirecTV, 933 F.3d at 1136, 1159 (Smith, J., dissenting).

78. Similar to the NFL-Amazon agreement, in 2021 the NHL contracted with ESPN for the next seven years to exclusively stream seventy-five regular season hockey games on Disney’s ESPN+ and Hulu. In the next few years, as other sports’ contracts expire, it is likely they too will move from linear broadcasting to OTT services. If the Supreme Court follows Justice Kavanagh’s reasoning, lawsuits regarding other SBA protected sports, such as hockey, will also be barred. Thus, there will be no legal regulation as the future of sports streaming evolves, requiring fans, bars, and restaurants to pay multiple subscription fees to access sports on various streaming platforms. Herman, Alison. “Live Sports Are the Next Great Battle of the Streaming Wars.” The Ringer, The Ringer, 15 Apr. 2021, www.theringer.com/sports/2021/4/15/22385705/live-sports-streaming-wars-future-industry.

79. Instead of simulcasting to avoid antitrust litigation, the NFL could give broadcasting rights back to each individual team. This would encourage market competition and avoid antitrust legislation if a team were to give exclusive broadcasting rights to a streaming platform. While the NFL giving teams authority over their own broadcasting rights may be a viable solution for it to avoid violating the Sherman Act, the NFL will likely be hesitant to make this transition as giving up broadcasting rights would take scheduling, supervision, and capital away from the NFL, as well as possibly drive some teams out of business. Thus, simulcasting is likely to be the NFL and Amazon’s best alternative. See Am. Needle, Inc, 560 U.S. at 183, 202, 130.

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Idaho and Sports Law

By Adam Epstein

Chair and Professor, Department of Finance and Law, Central Michigan University. Content (not article) originally presented to the Pacific Northwest Academy of Legal Studies in Business (PNALSB) in Boise, ID on April 6, 2018. Special thanks to all the attendees for input and discussion.

Introduction
The purpose of this article is to explore cases, incidents and issues that coalesce to form the relationship between the state of Idaho and sports law. Having only approximately 1.8 million residents, Idaho has less than most states to offer from the sports law perspective, but more than one might otherwise expect. The range of examples include sports torts to crimes to sport-related trademark law issues, and others. This article focuses on those examples most noteworthy in sports law circles and can certainly be used as a solid foundation for further inquiry related to sports law and the Gem State.

I. The 2013 Rountree “Baseball Rule” Decision
Idaho became involved in the continuing saga of foul-ball injury litigation and whether it should adopt the so-called “baseball rule,” the legal theory that provides as long as an owner, operator or club provides enough foul-ball (or any field-of-play flying object) screening for the most dangerous part of the stadium—and for a reasonable amount of others who might request it—the defendant should prevail in a sports torts or product liability lawsuit. The Idaho Supreme Court rejected the adoption of this “rule” in a 2013 decision involving the Class-A Boise Hawks in Rountree v. Boise Baseball, LLC.

Defendants often win these foul ball cases, but plaintiffs might succeed if they can show a defect in design or construction of the facility. Some critics say that by assuming the risk of being hit, it is akin to caveat emptor—let the buyer beware—and that this “rule” is unfair, as if it were a violation of traditional consumer protection principles and statutes. The 2013 Rountree decision, infra, was unanimous, and the Idaho Supreme Court opined that the baseball rule in Idaho would be better served by a traditional negligence approach rather than a specialized sports torts analysis.

The facts of the case were straightforward. On August 13, 2008, Bud Rountree and his family watched a Boise Hawks baseball game from behind a protected area at Memorial Stadium, most of which was protected by 30-foot-high mesh netting. However, Bud went to the “Executive Club,” one of the stadium’s few unprotected areas, where there were no signs warning of the dangers of being struck by a foul ball. Rountree admitted he stopped paying attention to the game until he heard a roar from the crowd. Then, when he turned around to see what was happening, he was struck in the face by a foul ball. As a result, he lost his eye.

Rountree sued for negligence against Boise Baseball which sought dismissal arguing that the baseball rule should apply in the case and offered that it was Rountree’s own fault (i.e., he assumed the risk) by watching the game from an unprotected area, thereby implicitly consenting to risk of injury. Rountree asked the court to not adopt the “baseball rule” in Idaho because it was “outmoded and in decline” and contrary to “public policy.” On the contrary, Boise Baseball argued that Rountree impliedly “consented to the risk of being hit by a foul ball.” The district court denied the motion for summary judgment and the case proceeded.

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The case reached the Idaho Supreme Court which recognized that many jurisdictions indeed have adopted the “baseball rule.” However, as a case of first impression in Idaho, it found “no compelling public policy rationale” to limit the duty of care owed to a spectator at a baseball game and expressly rejected the rule as a legal theory in Idaho. Still, the court noted that Idaho’s legislature could enact a specific law limiting the duty of care owed by a baseball stadium owner or operator like the states of Arizona, Colorado, New Jersey and Illinois, rather than adopt a judicially established rule, stating “This decision is in keeping with those states whose legislatures have seen fit to adopt variations of the Baseball Rule. See, e.g., Ariz. Rev. Stat. Ann. § 12-554; Colo Rev. Stat. Ann. § 13-21-120 (1994); N.J. Stat. Ann. § 2A:53A-43 to 2A:53A-48; 745 Ill. Comp. Stat. Ann. 38/10. Our Legislature can create a similar rule if it chooses.”

Additionally, the Idaho Supreme Court held that primary assumption of risk is not a valid defense under Idaho law either, unless there is express written or oral consent to the risk of injury. Put differently, and not surprisingly, the exculpatory language on the back of his ticket did not suffice as written consent, and although Rountree was a season ticket-holder for more than twenty years, he never read the disclaimer:

“The Holder Assumes All Risk and Dangers Incidental to the Game of Baseball Including Specifically (But Not Exclusively) the Danger of Being Injured by Thrown or Batted Balls.”

Indeed, the Court said that allowing assumption of the risk as an absolute bar was inconsistent with Idaho’s comparative negligence system to determine whether the risks are inherent in an activity or not. It held that under Idaho’s comparative negligence system, a jury should apportion the degree of fault between Bud Rountree and Boise Baseball, and “…drawing lines as to where a stadium owner’s duty begins, where netting should be placed, and so on, becomes guesswork.”

The Rountree decision was not groundbreaking in sports law, but it is significant because it marked a case of first impression in Idaho. Many other states have addressed the baseball rule (known additionally in some circles interchangeably as the “limited duty rule”) in years’ past stemming from two oft-cited, over-a-century-old Missouri decisions. Jurisdictions that have adopted the baseball rule since 2000 include Michigan, New Jersey, Nevada, New Mexico, and Virginia, for example.

Despite the Rountree decision, public outcry over the baseball rule reached a critical mass in recent years as tens of spectators of all ages at Major League Baseball (MLB) games have been brutally injured by foul balls. In fact, the Rountree decision was mentioned as a matter of public discourse at the national level as spectators and others continued to grow impatient over gruesome injuries from foul balls and broken bats.

II. Boise State’s Blue Turf Trademark

The blue-colored, artificial playing surface football field at Boise State University’s (BSU) Bronco Stadium (now Albertsons Stadium) was installed in 1986. It is especially unique and as the football program’s profile rose, the turf became the university’s most recognizable feature. In fact, BSU’s athletic director, Gene Bleymaier, did not like the fact that it cost $750,000 to remove the old field and install a new, green turf football field, so he suggested blue turf instead and convinced the powers that be that this would work. Today, many refer to the turf as “Smurf Turf” and the color of the field is a hallmark-in addition to a trademark-of the school and the program.

Though the blue turf is trademarked with the U.S. Patent and Trademark Office (USPTO) and convinced the USPTO that when consumers thought “blue field” they thought of Boise State, the process of obtaining the trademark was not a breeze. In fact, the USPTO rejected the application in 2008, citing a
“lack of distinctiveness,” but it approved a second attempt in 2009 after BSU’s university counsel argued that Boise State had spent $2.2 million on advertising that singled out the field. BSU typically grants permission to high schools and the like for non-green fields at no charge.

Taking matters into its own hands, and citing a legal doctrine known as “initial interest confusion,” BSU attempted to protect not only its blue trademark, but also any non-green football field as well. This doctrine theorizes the finding of a trademark infringement when there is temporary consumer confusion over the product before the purchase is made. However, trademark infringement that relies on “initial interest confusion” does not require a likelihood of confusion at the time of sale, only that the mark must capture the consumer’s initial attention. It has not been definitely established by a court whether this legal theory extends BSU’s blue turf trademark to any non-green field, however. Other BSU registered trademarks include:

- “BOISE STATE UNIVERSITY”
- “BOISE STATE”
- “BOISE STATE BRONCOS”
- “BRONCO NATION”
- “BLUE TURF”
- “BEYOND THE BLUE”
- “THE BLUE”
- The University diamond logo
- The University B logo
- Variations of the Bronco
- Boise State and Boise State Broncos logos
- A federal registration for the color blue as applied to turf.

There are about thirty-or-so blue football fields now across various competitive levels, including Eastern Michigan University’s gray field, Eastern Washington’s red one, nicknamed the Inferno, Central Arkansas in which the Bears play on a surface of purple and gray stripes, and Coastal Carolina which received permission from Boise State before installing its teal field. However, a North Carolina high school had its request to install a blue field turned down in 2014 because it shared the facility with a local college.

III. Sport-Related Violence

Idaho has had its share of issues related to illegitimate behavior and violence connect to sport. This section explores some of the most egregious examples of on-field and off-field acts of misconduct. In some instances, courts imposed criminal sanctions. In others, charges were not brought against individuals at all, or deals were struck in the criminal justice system.

A. The 2009 BSU/LeGarrette Blount Incident

In 2009, University of Oregon running back LeGarrette Blount punched BSU’s Byron Hout in the face on national television after the first game of the season as the teams were leaving the field. BSU won the football game 19–8 and as the teams were walking off the field, Hout said something to Blount who retaliated with a punch to the jaw thereby using physical violence in response. The television broadcasters were outraged at the shocking level of post-game violence.

After Hout fell to the blue turf, Blount continued his anger toward an Oregon teammate and he had to be restrained from approaching a group of hostile fans in the stands. In fact, he was escorted to the locker room by teammates and the police, Blount was suspended for the rest of the 2009 season. Though Blount was reinstated in November after a public apology, he was not arrested related to in the incident.
Pedagogically, the punch and post-game violence can easily be incorporated into the classroom (e.g., via YouTube) as an example for discussion over such violence constitutes acceptable, heat-of-the-moment sport violence (i.e., no criminal misconduct) or whether such behavior rises to the level of illegitimate violence necessitating criminal charges for the misconduct. If such behavior did not occur between student-athletes immediately post-game on the blue turf and instead occurred outside a BSU dormitory that same night, for example, would criminal charges have been more likely?

B. The 2015 High School Coat-Hanger Sexual Assault Case
Idaho was put into the national spotlight again after an incident that occurred at Dietrich High School on October 22, 2015. The misconduct in the locker room involved an alleged rape after practice by three white teammates of a black, mentally disabled football player with a coat hanger in the rectum. John R.K. Howard was initially charged with felony forcible sexual penetration by use of a foreign object as Howard allegedly kicked the hanger four or five times.

In December 2016, a plea bargain was accepted allowing Howard to plead guilty to a felony count of injury to a child and avoid prison time, unless he violated his probation. In addition to 300 hours of community service, Howard was on probation for three years. If he violated probation, he would be sentenced to a maximum of ten years in prison. Charges against the minors involved in the incident were resolved in juvenile court, where all proceedings are private. District Judge Randy J. Stoker accused the national press and the public for misrepresenting what happened stating, “people from the east coast have no idea what this case is about.”

The victim’s parents were outraged by the plea bargain and claimed that they had not been properly consulted and asserted that the victim was institutionalized and therefore unable to approve (or disapprove) either. Tim and Shelly McDaniel, the adoptive parents, then filed a federal civil rights lawsuit for $10M against the school district, claiming that the school had failed to protect the student from a campaign of race-based bullying which culminated in the sexual assault.

The two above examples represent reprehensible behavior at both the intercollegiate and interscholastic levels, respectively. The state of Idaho, like many states, does have a statute that addresses hazing and another that addresses bullying.

The Dietrich case was reminiscent of an incident emanating from Blackfoot, Idaho, in 2009 involving high school basketball players which case garnered widespread, national media attention as four adults and one juvenile were charged in 2010 with various misdemeanors as well as felony counts of forcible sexual penetration using a foreign object. After pleading guilty to misdemeanors, though the original charges were felonies, three former Blackfoot High School players then filed lawsuits against Bingham County, the City of Blackfoot, and individual prosecutors and law enforcement officers in 2012, though the state claims were dismissed. However, the dismissal did not apply to any of the federal tort claims listed in the lawsuit as the case moved forward.

These Idaho high school incidents-and others-drew considerable attention from the national press and gives the state a black eye in the context of sports and the law. However, issues related to sexual assault and the handling of such claims or incidents in the context of the state of Idaho athletics is not limited to interscholastic sports. This includes allegations of verbal, physical and alleged sexual abuse by coaches against intercollegiate student-athletes.
IV. Idaho Sports and Torts

A. Snow Skiing

Idaho is rich with opportunities to snow ski. The legal framework for the responsibility and liability of skiers, passengers, and ski area operators are found in Idaho’s Ski Safety Act. Operators have limited, enumerated duties, which include provision of appropriate signage, equipment markings, a ski patrol and so on. Operators have no duty to make the area safer from inherent risks. In fact, Idaho’s statute places much of the legal burden of safety on skiers themselves. For example, Idaho’s statute states under “Duties of Skiers”:

It is recognized that skiing as a recreational sport is hazardous to skiers, regardless of all feasible safety measures that can be taken. Each skier expressly assumes the risk of and legal responsibility for any injury to person or property that results from participation in the sport of skiing including any injury caused by the following, all whether above or below snow surface: variations in terrain; any movement of snow including, but not limited to, slides, sloughs or avalanches; any depths of snow, including tree wells, or any accumulations of snow, whether natural or man made, including snowmaking mounds; freestyle terrain; surface or subsurface snow or ice conditions; bare spots, rocks, trees, other forms of forest growth or debris, lift towers and components thereof; utility poles, and snowmaking and snowgrooming equipment which is plainly visible or plainly marked in accordance with the provisions of section 6-1103, Idaho Code. Therefore, each skier shall have the sole individual responsibility for knowing the range of his own ability to negotiate any slope or trail, and it shall be the duty of each skier to ski within the limits of the skier’s own ability, to maintain reasonable control of speed and course at all times while skiing, to heed all posted warnings, to ski only on a skiing area designated by the ski area operator and to refrain from acting in a manner which may cause or contribute to the injury of anyone. The responsibility for collisions by any skier while actually skiing, with any person, shall be solely that of the individual or individuals involved in such collision and not that of the ski area operator.

With snow skiing comes risks, and Idaho courts have addressed potential liability for injuries to skiers and others, including what constitutes inherent risks of the sport. In sum, skiers and passengers must conduct themselves within the constraints of their own abilities, ski where designated, not interfere with tram operations, and must use retention devices.

Indeed, ski operators in Idaho often win cases against them for negligence based upon the language of the statute itself. For example, in the oft-cited and now decades-old Supreme Court decision in Northcutt v. Sun Valley Co., the husband and wife plaintiffs unsuccessfully appealed summary judgment to defendant ski area operator in a negligence claim after Christopher Northcutt collided with a signpost erected on the ski operator’s premises. Northcutt’s signpost injuries were the result of an unidentified skier who collided with him. The Court of Appeals affirmed the dismissal. Citing the Idaho statute, the court held that the responsibility for the collision between the skier and the unidentified skier was their own and not the operator’s. While somewhat harsh especially to those seriously injured while skiing, still because there was no evidence that the operator failed to follow the duty set forth in Idaho Code § 6-1103(8), it was not liable for the failure to determine the identity of the unidentified skier either.

However, in the 1997 decision in Davis v. Sun Valley Ski Educ. Found., plaintiff Marianna Davis was injured in 1989 while attending a training session for ski racers sponsored by the non-profit foundation, and she sued alleging negligence in setting the course, failing to provide proper safety devices, and in failing to warn of hazards. The defendants—a ski foundation and employee—sought summary judgment based upon the Idaho statute defining responsibilities and liabilities of skiers and ski area operators, but
the court denied the motion after finding that defendant was not considered a ski area operator under Idaho Code § 6-1102(4) because it did not exercise “operational responsibility” for the ski area. Thus, the Idaho Supreme Court affirmed that a new trial was required because assumption of the risk was not a complete bar to liability under § 6-1106 because the defendant was not a ski area operator under the statute and therefore there was erroneous jury instruction at the trial court.

In the 2007 decision *Withers v. Bogus Basin Recreational Ass’n, Inc.*, the Supreme Court reviewed a grant of summary judgment in favor of a ski area operator against a skier who had tripped over a rope separating a chairlift from an unloading ramp. The plaintiff alleged that the operator’s negligence in placing the rope had caused her injuries. The court disagreed and therefore affirmed summary judgment, ruling that the defendant had fulfilled its duty under Idaho law by configuring the rope to lessen the inherent risk of skiers colliding.

**B. Outdoor Recreational Activities**

Idaho has a recreational use statute similar to ski area operator. The statute states from the outset, “The purpose of this section is to encourage owners of land to make land, airstrips and water areas available to the public without charge for recreational purposes by limiting their liability toward persons entering thereon for such purposes.” The statute was updated in 2018 to address interpretation concerns over civil trespass to land and a “patchwork laws. They impose significant posting burdens on landowners, without reducing trespassing. The poor construction of the laws of trespass hinders the effective arrest and prosecution of trespassers.”

“(c) Owner Exempt from Warning. An owner of land owes no duty of care to keep the premises safe for entry by others for recreational purposes, or to give any warning of a dangerous condition, use, structure, or activity on such premises to persons entering for such purposes. Neither the installation of a sign or other form of warning of a dangerous condition, use, structure, or activity, nor any modification made for the purpose of improving the safety of others, nor the failure to maintain or keep in place any sign, other form of warning, or modification made to improve safety, shall create liability on the part of an owner of land where there is no other basis for such liability.”

and

“(h) Owner Not Required to Keep Land Safe. Nothing in this section shall be construed to: 1. Create a duty of care or ground of liability for injury to persons or property. 2. Relieve any person using the land of another for recreational purposes from any obligation which he may have in the absence of this section to exercise care in his use of such land and in his activities thereon, or from legal consequences or failure to employ such care. 3. Apply to any person or persons who for compensation permit the land to be used for recreational purposes.

(i) User Liable for Damages. Any person using the land of another for recreational purposes, with or without permission, shall be liable for any damage to property, livestock or crops which he may cause while on said property, in addition to all remedies provided in section 6-202, Idaho Code, in the event the person has committed a civil trespass.”

Still, Idaho's trespass law appears to have created confusion for law enforcement officials and those who did not intend to trespass in the first place, and case law suggests that it was never intended to provide absolute immunity to the landowner.
The following cases represent two examples of other sport-related activities in which negligence was the primary legal issue. One took place indoors, the other outdoors.

1. **Trampoline**

On January 11, 2014, Seth Griffith (age seventeen) went to an indoor trampoline park in Meridian. He had been performing various front flips, back flips and cartwheels for over an hour within the facility, which included two pits filled with foam blocks adjacent to trampolines. The facility was owned and operated by JumpTime Meridian, LLC. A sign in the facility instructed patrons to land on their feet, and another sign specifically noted that patrons using the foam pit should not land on their head or neck and to instead land “feet first.”

Seth performed double front flips from a trampoline into one of the foam pits, although he landed on his back. One of the facility’s monitors then approached him after he performed a double front flip to ask if he had ever done one before, and he told her that he had. Mr. Griffith continued performing double front flips while landing on his back. He then decided to try a triple front flip before landing. Seth did not rotate far enough while performing the triple front flip and landed on his head and neck instead of his back. He suffered a cervical dislocation and fracture, requiring a fusion of his C6 and C7 vertebrae.

Seth sued JumpTime alleging negligence and that it had a duty to supervise him because he was under the age of eighteen. Seth claimed that he would not have attempted the triple front flip if the attendant told him to land on his feet instead of his back like he did with the double front flips. Seth further contended that the signs on the wall established the standard of care (i.e. that it was not proper to land on one’s back) and the attendant’s failure to admonish him for landing incorrectly resulted in his accident, as he was not discouraged from a triple front flip. The district court granted summary judgment, holding that Seth failed to produce evidence of negligence and causation.

The Idaho Supreme Court focused on the issue of causation noting that it was essentially a question of “why [Mr. Griffith] attempted the triple front flip.” The court highlighted the fact that he “did not tell anyone he was going to attempt it, nor is there any evidence indicating that the [attendant] knew or should have known that he would try a triple front flip.” The court reasoned that Seth, by his own admission, decided to perform a triple front flip because he was confident and it was exciting. The court noted that Seth’s testimony did “not support an inference that JumpTime was in any way responsible for his decision to try the triple front flip,” and summary judgment was affirmed.

2. **Softball**

In *Sanders v. Kuna Joint Sch. Dist.*, the Court of Appeals of Idaho ruled that the claims that the failure of an athletic instructor (Ron Emry) to provide adequate instruction or supervision did not cause the injury of high school student Josh Sanders under his care. As stated by the court,

> “On May 15, 1990, Josh Sanders, a student at Kuna High School, attempted to slide into first base during a softball game and broke his ankle. Sanders had been enrolled in a specialized physical education class which provided instruction in weight lifting. On the date of the incident, the instructor, respondent Ron Emry, decided to have the class play softball outside instead of weight lifting.”

According to Sanders, on that day he was wearing a pair of “Saucony Shadows,” a running shoe. Outside on the field, Emry did not give instructions related to softball and he supervised the game from behind a backstop. Sanders attempted to slide into first base during the activity and consequently broke his ankle. The court continued,
As to the negligent instruction claim, we agree with the district court that the record reveals a lack of evidence as to causation. Sanders simply claims that Emry failed to instruct the students in the game of softball and that such a failure caused the injury.

Sanders does not, however, offer any evidence as to what the instructions should have been, how such instructions would have prevented the injury, or how Sanders improperly slid. We agree with the conclusion of the district court that a rational jury could not find a causal connection between the failure to instruct and the resulting injury on the evidence presented. Therefore, the district court did not err in granting summary judgment as to Emry's alleged negligent instruction.\textsuperscript{121}

With respect to the negligent supervision claim, there are two separate issues we must consider — the actual supervision of the game as it was being played and the failure to inspect the footwear of the students. Again, as with the negligent instruction claim, Sanders’ allegation of negligent supervision during the actual game must fail for lack of proof of causation.\textsuperscript{122}

Thus, summary judgment granted and affirmed on appeal.

As demonstrated in the indoor and outdoor cases above regarding Idaho and its relationship to sports and torts, the state does provide worthy examples of enquiry and discussion in sports law.

\textbf{V. Contract Law}

Shirley Huyett was hired as the head women’s basketball coach at Idaho State University (ISU) for just one year.\textsuperscript{123} Huyett, however, claimed that it was in fact a three-year contract and filed a lawsuit against ISU when her contract was not renewed.\textsuperscript{124}

The court recognized that negotiations had taken place to extend her contract, but not only was that contract not signed, but in the meantime Huyett was placed on administrative leave before either party had signed the draft of a three-year contract, and ISU rescinded the offer.\textsuperscript{125} The court affirmed the district court decision, holding that Board of Education (Board) approval was first required for the university to have authority to enter into a multi-year contract in the first place.\textsuperscript{126}

The court continued and said that absent that prior approval there was no contract, and therefore ISU could not have breached a covenant of good faith and fair dealing since the multi-year contract did not exist.\textsuperscript{127} Huyett also had no constitutionally protected property interest beyond that of her one-year contract, and although she alleged that placing her on administrative leave marred her coaching reputation, that alone was not sufficient to raise a due process claim.\textsuperscript{128} This case was not unique in the legal sense, but certainly it offers a lot from a pedagogical perspective including a discussion of the statute of frauds.\textsuperscript{129}

\textbf{VI. Additional Sport-Related Law Subjects Worthy of Exploration}

Idaho has a variety of other areas of sport-related law subjects worthy of exploration including a national debate involving the exclusion of transgender athletic participation in sport within the state from competing in women’s sports as a result of its Fairness in Women’s Sport Act, the first of its kind, which went into effect on July 1, 2020.\textsuperscript{130} This law requires that “Athletic teams or sports designated for females, women, or girls shall not be open to students of the male sex.”\textsuperscript{131} The statute continues,

A dispute regarding a student’s sex shall be resolved by the school or institution by requesting that the student provide a health examination and consent form or other statement signed by the student’s personal health care provider that shall verify the student’s biological sex...\textsuperscript{132}
However, a federal judge granted a motion for a preliminary injunction soon thereafter in August 2020. Another Idaho sport law-related subject could include how homeschooled students (known as a “nonpublic” student) may participate in public school extracurricular activities, including sports. Homeschool students are not required to take a class at a public school to participate in the school’s sports program. Still, in order to establish academic proficiency, the nonpublic student must demonstrate “composite grade-level academic proficiency” in the manner required by state board of education rules and must reside in the attendance boundaries of the school in which he or she resides.

In 2016 the Idaho Legislature updated the Youth Sports Concussion Statute. If proper procedures are followed, the law is not only designed to help protect young athletes with concussion, but it also affords schools and sport programs a limitation of liability on the basis of negligence. Youth sport programs outside of public middle, junior and high schools are not required to comply with this law, but liability protections afforded by the law are extended to those who comply. Once suspected for a concussion, the youth sport athlete may not return to play until he or she is evaluated by a “qualified health care professional.”

Idaho has adopted the Uniform Athlete Agent Act (UAAA). Also, sports wagering in Idaho is illegal, despite the trend nationwide to offer sports gambling following the 2018 Supreme Court decision in Murphy v. Nat’l Collegiate Athletic Ass’n. The use of Native American mascot issues continue to be a topic of discussion in the state as high schools continue to ponder whether to use such nicknames and imagery. Colleges and universities in Idaho may sell alcohol at sport events.

Finally, while Idaho does not have specific legislation related to protecting sports officials, Idaho’s Legislature did offer a supportive Concurrent Resolution No. 32 in March 2001 which resulted in public recognition of the important role officials play in sport despite the increasing trend that “sports officials are subjected to verbal and even physical assault by disgruntled fans as well as certain coaches and players. That trend follows a growing trend in recent years that, at its foundation shows a lack of respect for authority figures...” There is no penalty or governmental enforcement mechanism specific to verbal or physical abuse of referees but having the Legislative’s formal declaration of support was a nice touch.

Conclusion
Idaho’s relationship with sports law is worthy of exploration much more than the recent publicity of the banning of trans girls from competing on girls’ sports teams. From the Rountree decision in which Idaho refused to adopt the baseball rule, to the post-game, on-field incident involving University of Oregon running back LeGarrette Blount, to the trademark issues related BSU’s blue football field, the state does provide a solid source of sports law material.

No doubt, outdoor skiing and other recreational activities have their place in the discussion as do a host of other subjects as well ranging from its refusal to allow sports gambling to its progressive Youth Sports Concussion Statute. Unfortunately for Idaho, much of the sports law discussion focuses on criminal misconduct by high schoolers which garnered unwanted, unfortunate yet justified national attention and discourse as well.

Endnotes
2. See ADAM EPSTEIN, SPORTS LAW 119-121 (2013) (hereinafter EPSTEIN). The expression “baseball rule” is sometimes capitalized by authors and courts.

4. Epstein, supra note 2, at 120.

5. Id. at 120-21; see also Maisonave v. Newark Bears Prof’l Baseball Club, Inc., 881 A.2d 700, 708 (N.J. 2005) (“While the baseball “event” has been evolving, tort law has shifted from a caveat emptor approach to one that generally requires defendants to assume more responsibility.”).

6. Rountree, supra note 3, at 375.

7. Id.

8. Id.

9. Id.

10. Id.

11. Id.

12. Id. at 377.

13. Id. at 375.

14. Id.

15. Id. at 377-78.

16. Id. at 379.

17. Id.

18. Id. (The court in the previous paragraph states, “Declining to adopt the Baseball Rule leaves policy formulation to the deliberative body that is better positioned to consider the pros and cons of the issue.”).

19. Id. at 381 citing the decades-old decision and holding in Salinas v. Vierstra, 695 P.2d 369 (Idaho 1985).

20. Id. at 375.

21. Id. at 381.

22. Id. at 379.

23. Rountree relied heavily on Maisonave, supra note 5 (establishing the standard of care in the state of New Jersey when a spectator. That court held that Maisonave was not a spectator because he was buying a beer at the time he was hit by the foul ball, thereby creating two distinct duties of care with regard to flying objects leaving the field of play: 1) the limited duty of care (i.e., for the stands) and/or 2) a broader duty of care traditionally owed to business invitees, depending on the location of a spectator when he or she was injured. (such as the concourse, mezzanine, etc.). However, because of this decision, that state of New Jersey enacted the BASEBALL SPECTATOR SAFETY ACT OF 2006 (N.J. Stat. §2A: 53A-44, 2006) which legislatively overturned Maisonave if N.J. stadium owners comply with the basic requirements of the Act).

24. See Crane v. Kan. City Baseball & Exhibition Co., 153 S.W. 1076, 1078 (Mo. Ct. App. 1913) (ruling that since Crane had chosen a seat in an unprotected section down the third base line, he “assumed the ordinary risks of such position.”); but see Edling v. Kan. City Baseball & Exhibition Co., 168 S.W. 908 (Mo. Ct. App. 1914) (affirming decision for plaintiff against ballpark owner whose netting was shown to be defective in that a foul ball passed through a large hole and struck plaintiff in the face, breaking his nose. The Court of Appeals of Missouri stated, “Defendant recognized this duty by screening that part of the grandstand most exposed to the battery of foul balls and impliedly assured spectators who paid for admission to the grandstand that seats behind the screen were reasonably protected.”). Id. at 909-10.


31. Id.; see also William Weinbaum, Coroner: Fan Struck in Head by Foul Ball During Dodgers Game

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To see the Boise State Univ. Blue Turf Service Mark’s status, see Registration No. 77574724, http://tsdr.uspto.gov/#caseNumber=77574724&caseType=SERIAL_NO&searchType=statusSearch.

33. Id.
34. Id.
35. Id.


37. Id.; see also BLUE TURF, Registration No. 3707623, http://tsdr.uspto.gov/#caseNumber=%093707623&caseSearchType=US_APPLICATION&caseType=SERIAL_NO&searchType=statusSearch (Registered Nov. 10, 2009, “The mark consists of the color blue as applied to artificial turf.” Also, the mark is for “Entertainment services, namely, the presentation of intercollegiate sporting events and sports exhibitions rendered in a stadium, and through the media of radio and television broadcasts and the global communications network.”).

38. Fortier, supra note 36. BSU claims that the trademark expanded from just blue to non-green in 2010, but I have found no concrete evidence to support that.


41. Fortier, supra note 36.

42. Id.

43. BOISE STATE UNIV., Trademark Basics, https://licensing.boisestate.edu/trademarks/trademark-basics/ (“All other names, including “BRONCO” and “BRONCOS”, symbols, initials, colors, images, graphic designs or other indicia that refer to the University are protected by United State federal and state law. The trademarks are updated continually. A current listing of registered trademarks is available from the Director of Trademark Licensing and Enforcement”).

44. See Fortier, supra note 36. Boise State granted retroactive permits for blue turf for field hockey at the University of Michigan and football at the University of New Haven (schools were unaware of the trademark).

45. Id.
46. Id.

47. Id.; see also Stu White, If You Want a Non-green Field, You Must Go through Boise State, FAN SIDED (Mar. 28, 2014), https://fansided.com/2014/03/28/want-non-green-field-must-go-boise-state/. For further exploration of the alleged breadth and extent of the Blue Turf trademark and surrounding legal issues, see Robert W. Emerson & Katharine C. Collins, Mutating Marks: Refusing to Lose the Trademark Trail, 15 NW. J. TECH. & INTELL. PROP. 149 (2018) (offering a critical analysis of the potential breadth of the trademark, stating, “Boise State’s apparent liberty from each tenet of its mark’s registration is troubling. The PTO limits applicants to one individual mark per registration, and though there are justifiable expansions as marks evolve, this one seizes an irrational scope of control.” Further, “If the mark described is a blue field, the owner has no proprietary right to every other color in the rainbow.”). Id. at 205.


49. Id.
50. Id.
51. Id.
52. Id.
53. Id.
56. Id.
58. See La Ganga, supra note 55.
59. Id.
60. Id.
61. Id.
62. Id. (quoting Judge Stoker, “This is not a rape case. This is not a sex case. This started out as penetration with a foreign object ... Whatever happened in that locker room was not sexual. It wasn’t appropriate. There’s nothing in this record that supports anything close to the sexual allegation against this young man.”).
68. See Kendra Evensen, Some claims dismissed in former Blackfoot High School athletes’ civil lawsuit, Idaho State J. (May 12, 2014), https://www.idahostatejournal.com/members/some-claims-dismissed-in-former-blackfoot-high-school-athletes-civil/article_eb389e02-da44-11e3-98a8-0019bb2963f4.html (“The five dismissed state claims included: malicious prosecution and conspiracy; obstruction of justice and conspiracy; intentional infliction of emotional distress and conspiracy; negligence; and negligent supervision, hiring, training and discipline, according to court documents.”).
69. Id.
70. See also Drews v. Joint Sch. Dist. No. 393, 2006 U.S. Dist. LEXIS 21695 (D. Idaho 2006) in which a high school student, Casey Drews, alleged harassment based on misguided perception that she was a lesbian. The court held that even assuming the harassment was sufficiently severe and pervasive, Drews was not deprived of educational opportunities because (1) she took an independent study course and (2) she voluntarily quit cheerleading because she opposed some moves. The claims were brought under §1983, Title IX of the Education Amendments of 1972, substantive due process, equal protections, negligence (duty to protect, supervise, educate), and a “hostile educational environment.” It was later discovered that, in fact, Drews had not even quit the team and therefore was not deprived of an educational opportunity under Title IX analysis. See Drews v. Joint Sch. Dist. No. 393, 2006 U.S. Dist. LEXIS 29600 (D. Idaho 2006) (dismissing the case as she was still on the team).
71. Id.; see also Chad Crippe, Idaho AD Rob Spear Fired by State Board of Education, Idaho Statesman (Aug. 16, 2018), https://www.idahostatesman.com/sports/college/university-of-idaho/article216782185.html (reporting that Idaho’s athletic department violated Title IX guidelines with its handling of sexual assault complaints from former diver Mairin Jameson and former distance runner Maggie Miller against a former football player, wide receiver Jahrie Level); see also Chad Crippe, University of Idaho Botched a Sexual Assault Complaint. It Took 5 Years to Admit it,


75. Idaho Code § 6-1101 (2018). ("The legislature finds that the sport of skiing is practiced by a large number of citizens of this state and also attracts a large number of nonresidents, significantly contributing to the economy of Idaho. Since it is recognized that there are inherent risks in the sport of skiing which should be understood by each skier and which are essentially impossible to eliminate by the ski area operation, it is the purpose of this chapter to define those areas of responsibility and affirmative acts for which ski area operators shall be liable for loss, damage or injury, and to define those risks which the skier expressly assumes and for which there can be no recovery.").

76. Idaho Code §6-1106 (bolded for emphasis only). Also, Idaho also has an Outfitter and Guide Liability Act that limits liability for outdoor recreational pursuits as long as the outfitter or guide is licensed. See Idaho Code §§ 6-1201-1206 (2018).

77. 787 P.2d 1159 (Idaho 1990).

78. Id. at 1160.

79. A member of the defendant’s ski patrol who administered first aid to the skier permitted the unidentified skier to leave the scene without requiring him to identify himself. Plaintiffs filed an action against the operator to recover damages for the skier’s injuries, but the trial court granted summary judgment in favor of the ski area operator. Id. at 1160-61.

80. Id.

81. Id. at 1161-62 (stating, “The Northcuts assert that the Act immunizes ski area operators only from liability arising from risks inherent in the sport of skiing. With that proposition we agree. They argue that Christopher’s injuries were not caused by a risk inherent in the sport of skiing and that therefore Sun Valley should be liable. With that conclusion we disagree.”). See, e.g., Collins v. Schweitzer, Inc., 21 F.3d 1491 (9th Cir. 1994) (challenging the judgment of the U.S. District Court for the District of Idaho, which granted the motion for summary judgment of appellees, ski area operator and amateur ski racing promoter, pursuant to Idaho statutory framework, even though appellant was rendered a quadriplegic after colliding with a lift tower during a race. The District court held that appellant racer expressly assumed the risk, and the Ninth Circuit affirmed and held that the act plainly stated that inherent risks included the risk of injuries caused by lift towers and that there was no distinction between injuries suffered during racing or during other types of skiing).

82. Northcutt v. Sun Valley Co. at 1163-64. The court further states, “It is significant that when the legislature stated the legislative purpose of the Act, it included the statement that "the sport of skiing is practiced by a large number of citizens of this state and also attracts a large number of nonresidents, significantly contributing to the economy of Idaho." Id at 1165-66.

83. 941 P.2d 1301 (Idaho 1997).

84. Id. at 1303 (“The first two skiers in the training session negotiated the course without incident. Davis, the third skier, lost control on the cat track, went off the course, and hit a tree. As a result of the accident, Davis is paralyzed from the chest down.”).

85. Id. at 1305.

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87. Id. at 1306-07.
88. 156 P.3d 579 (Idaho 2007).
89. Id. at 580-81.
90. Id. at 581.
91. Id. at 583 (“Withers descended the unloading ramp without incident and proceeded a distance alongside the rope before attempting to cross over it. The hazard was created by the rope, not the construction, operation, maintenance and repair of the chairlift. I.C. § 6-1104. Withers was not endangered by the operation of the chairlift, and her injuries were not caused by that operation.”).
93. IDAHO CODE § 36-1604 (a) (2018).
94. Id. under the statute’s Amendments and also Legislative Intent found in the annotations.
95. IDAHO CODE § 36-1604 (c).
96. IDAHO CODE § 36-1604 (h) and (i). Idaho cases had previously addressed civil trespass outside the scope of the statute, somewhat of a challenge for courts. For example, a landowner owes a duty of care to a trespasser and, thus, a person using the land for recreational purposes, in two circumstances. First, it is a landowner’s duty to a trespasser to refrain from willful or wanton acts which might cause injuries. Second, the landowner may be liable for injuries to a trespassing child under the attractive nuisance doctrine. See Ambrose ex rel. Ambrose v. Buhl Joint Sch. Dist. No. 412, supra note 92; see also Jacobsen v. City of Rathdrum, 766 P.2d 736, 740 (Idaho 1988) (“There is no indication in the statute that the legislature intended to abolish a landowner’s liability to trespassers.”).
97. See Cameron Rasmusson, Four Things to Know about Idaho’s New Trespassing Law, Reader (July 12, 2018), http://sandpointreader.com/four-things-to-know-about-idahos-new-trespassing-law/ (“The trespassing bill was intended to clarify Idaho’s existing laws, but so far, it’s done the opposite. Law enforcement officials worry that the law could end up creating trouble for people who didn’t intend to trespass in the first place. On top of that, some of the language-like the definition of trespassing as entering or remaining on private property-creates more confusion.”).
98. See Ambrose ex rel. Ambrose v. Buhl Joint Sch. Dist. No. 412, supra note 92 (offering that the statute does not confer absolute immunity upon owners who gratuitously permit recreational use of their property.).
100. Id.
101. Id.
102. Id. Regarding the foam pit, JumpTime’s internal, written policy manual instructed employees to “[f]ollow the rules outlined on the wall and continuously enforce [them].” Id.
103. Id.
104. Id. The monitor actually commented “Oh, that was pretty sweet.” Id.
105. Id.
106. Id.
107. Id.
108. Id.
109. Id.
110. Id.
111. Id. at 574-75.
112. Id.
113. Id. at 575.
114. Id.
115. Id.
(quoting his mother, “He is walking, which is a miracle.”).

118. Id. at 155.
119. Id.
120. Id.
121. Id. at 156-57.
122. Id. at 157.
123. Huyett v. Idaho State Univ., 104 P.3d 946, 948 (Idaho 2004). Her husband also sued and was a named plaintiff.
124. Id. at 948-49 (claiming “breach of an express or implied contract for multi-year employment and a procedural due process violation based on deprivation of her liberty and property interests associated with continued employment.”).
125. Id. at 949.
126. Id. at 950-51.
127. Id. at 952.
128. Id.
129. Id. at 949 (noting, “No written multi-year contract was signed by the parties. Idaho Code § 9-505 prevents the enforcement of a contract that cannot be performed in less than a year unless the contract is evidenced by a signed writing of the parties or there is an existing circumstance that removes the case from the application of the Statute of Frauds. I.C. § 9-505 (2004);”). For further discussion of the case, see Associated Press, Huyett’s Suit Claims She Had Multiyear Deal, ESPN (June 7, 2002), http://a.espn.com/news/2002/0607/1392167.html.

130. FAIRNESS IN WOMEN’S SPORT ACT, IDAHO CODE §33-6201 et seq.; see also Talya Minsberg, ‘Boys Are Boys and Girls Are Girls’: Idaho Is First State to Bar Some Transgender Athletes, N.Y. TIMES (Apr. 1, 2020), https://www.nytimes.com/2020/04/01/sports/transgender-idaho-ban-sports.html; but see Cynthia Sewell, ACLU Files Lawsuit over Idaho’s New Transgender Athlete Law, IDAHO STATESMAN (Apr. 15, 2020), https://www.idahostatesman.com/news/politics-government/state-politics/article242010391.html (stating, “The law, scheduled to go into effect July 1, would make Idaho the first state to impose an outright ban on participation of transgender athletes, and it’s the only statewide law regulating transgender and intersex athletes in the country.”); Julie Kligeran, Idaho Banned Trans Athletes from Women’s Sports. She’s Fighting Back, SL.COM (June 30, 2020), https://www.si.com/sports-illustrated/2020/06/30/idaho-transgender-ban-fighting-back (discussing the circumstances surrounding the case of Lindsay Hecox who, among others, brought a lawsuit against the state of Idaho that, as stated by Kligeran, restricts “trans women and girls from competing in sports aligned with their gender identity as opposed to their biological sex.”).

131. FAIRNESS IN WOMEN’S SPORT ACT, IDAHO CODE §33-6203 (2).
132. §33-6203 (3). The statute in the same section continues, “The health care provider may verify the student’s biological sex as part of a routine sports physical examination relying only on one (1) or more of the following: the student’s reproductive anatomy, genetic makeup, or normal endogenously produced testosterone levels.” Id.

of the court” brief, which was written by the office of Nebraska Attorney General Douglas Peterson, argues that states are legally allowed to draw distinctions based on sex and urges the U.S. Ninth Circuit Court of Appeals to reverse Idaho U.S. District Judge David Nye's August injunction that bars enforcement of House Bill 500 while the case works its way through the courts...The states of Alabama, Alaska, Arkansas, Indiana, Kansas, Kentucky, Louisiana, Mississippi, Montana, Oklahoma, South Carolina, Texas and West Virginia also signed onto the brief.”; but see Jo Yurcaba & The Associated Press, NCAA Considers Holding Tournaments in States with Trans Athlete Restrictions, NBC News (May 7, 2021), https://www.nbcsports.com/feature/nbc-out/ncaa-considers-holding-tournaments-states-trans-athlete-restrictions-n1266672 (authoring, “Seven states — Alabama, Arkansas, Idaho, Mississippi, South Dakota, Tennessee and West Virginia — have laws banning trans girls from competing on girls sports teams, though a federal judge blocked Idaho’s law from taking effect in August pending the outcome of a lawsuit. All of the laws ban trans girls from competing in middle and high school sports. Laws in Arkansas, Virginia and Mississippi also include college sports teams.”).

134. The Idaho legislature has established a system known as the “dual enrollment.” See IDAHO CODE § 33-203 (2018).


136. A test or portfolio makes the student eligible (or ineligible) for the current school year and the following school year. IDAHO CODE § 33-203(4) (2018).

137. IDAHO CODE §§33-1625 (1)-(9) (2018). Excerpts include, “(2) This section shall apply to any middle school, junior high school and high school in the state participating in or administering an organized athletic league or sport. For the purposes of this section, “qualified health care professional” means and includes any one (1) of the following who is trained in the evaluation and management of concussions: (a) A physician or physician assistant licensed under chapter 18, title 54, Idaho Code; (b) An advanced practice nurse licensed under section 54-1409, Idaho Code; or (c) A licensed health care professional trained in the evaluation and management of concussions. For the purposes of this section, “qualified health care professional” means and includes any one (1) of the following who is trained in the evaluation and management of concussions: (a) A physician or physician assistant licensed under chapter 18, title 54, Idaho Code; (b) An advanced practice nurse licensed under section 54-1409, Idaho Code; or (c) A licensed health care professional trained in the evaluation and management of concussions who is supervised by a directing physician who is licensed under chapter 18, title 54, Idaho Code.”

138. Id. “(3) At the beginning of each sports season before a youth athlete participates in any organized practice or game, the youth athlete and the youth athlete’s parent or guardian shall receive the guidelines and information described in subsection (1) of this section from the school for which the athlete plays, and shall review the guidelines and information. Coaches, referees, game officials, game judges and athletic trainers shall review such guidelines and information upon employment and biennially thereafter... (5) If during a practice or game or competition, it is reasonably suspected that a youth athlete has sustained a concussion or head injury and exhibits outward signs or symptoms of such, as defined by the centers for disease control and prevention, then the youth athlete shall be removed from play. Every Idaho middle school, junior high school and high school that participates in or offers an organized athletic league shall develop protocol to be followed for removing such athletes from play. Such protocol shall be consistent with concussion and head injury guidelines of the centers for disease control and prevention... (8) If an individual reasonably acts in accordance with the protocol developed pursuant to subsection (5) of this section, then acting upon such protocol shall not form the basis of a claim for negligence in a civil action.”

139. Id. at (9) “Any youth sport organization or association in this state may comply with this section. If a youth sport organization or association is in full compliance with this section, then the youth sport organization or association shall be afforded the same protections from liability in a civil action pursuant to subsection (8) of this section.”

140. Id. at (6) “An athlete may be returned to play once the athlete is evaluated and authorized to return by a qualified health care professional who is trained in the evaluation and management of concussions. For the purposes of this section, “qualified health care professional” means and includes any one (1) of the following who is trained in the evaluation and management of concussions: (a) A physician or physician assistant licensed under chapter 18, title 54, Idaho Code; (b) An advanced practice nurse licensed under section 54-1409, Idaho Code; or (c) A licensed health care professional trained in the evaluation and management of concussions who is supervised by a directing physician who is licensed under chapter 18, title 54, Idaho Code.”


144. See Michael Lycklama, After 90 Years, Idaho High school Retires its Controversial Native American Mascot,
Idaho Statesman (July 16, 2019), https://www.idahostatesman.com/sports/high-school/article232767952.html (reporting that the Teton Redskins will change their name, and adding “After Teton’s decision, 11 Idaho high schools still use Native American mascots: the Indians (Pocatello, Preston, Buhl, Shoshone, Nezperce), the Savages (Salmon, Salmon River), the Warriors (Meridian, Kootenai) and the Braves (Boise). The high school on the Fort Hall Reservation, home to the Shoshone-Bannock, is also known as the Sho-Ban Chiefs. Salmon and Salmon River have officially abandoned the use of Native American images but still use the Savages nickname.”).


146. NOW, THEREFORE, BE IT RESOLVED by the members of the First Regular Session of the Fifty-sixth Idaho Legislature, the House of Representatives and the Senate concurring therein, calling on all school districts, little league programs, high school, college and recreational programs, along with law enforcement and prosecutors, to do all they can to put an end to the increased threats and batteries on sports officials and to prosecute to the full extent of the law. (Adopted March 2001).
Litigation & Industry Updates Column

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Dua Lipa's Dual Suits for Copyright Infringement
Two separate suits were filed against pop singer Dua Lipa this March, alleging Lipa's “Levitating” infringes the copyrights in their respective compositions. The first suit was filed on Tuesday, March 1 by reggae band Artikal Sound System in Los Angeles federal district court. Artikal Sound System claims that Dua Lipa and the co-writers of “Levitating” listened to Artikal’s “Live Your Life” before and while creating “Levitating.” Artikal claims that because the two compositions are so substantially similar, it is highly unlikely that “Levitating” was created independently from “Live Your Life.” “Live Your Life” was written and recorded in 2017 and commercially released on CD Baby, a music distribution service, in 2017. At the time of creation of “Levitating,” Artikal’s composition was available on a variety of streaming platforms including Spotify, Pandora, Apple Music, Amazon, and Sound Cloud.

The second suit was filed on Friday, March 4 by songwriters L. Russell Brown and Sandy Linzer in the Southern District of New York. They claim that Dua’s “Levitating” infringes their compositions “Wiggle and Giggle All Night,” recorded by Cory Daye in 1979, and “Don Diablo,” recorded by Miguel Bosé in 1980. Specifically, the songwriters allege that the melody of “Levitating” is a duplicate of the opening melody from Brown and Linzer’s compositions. As evidence, Brown and Linzer cite to professionals and laypersons who have noticed substantial similarities between the allegedly infringing work and their compositions, as well as to Lipa’s own statements released in Elle magazine and on Capital FM that she emulated prior eras of music to create the album on which “Levitating” was released.

Both suits were brought under section 101 and section 1331 of the Copyright Act. To prove copyright infringement the plaintiff must show that the defendant had both (1) access to the plaintiff’s work, and (2) that the allegedly infringing work is “substantially similar” to the protected features of plaintiff’s work. However, the separate suits will face different infringement analyses due to the current circuit split in the courts’ substantial similarity evaluation.

The first suit, filed by Artikal Sound Systems in Los Angeles federal district court, will follow the 9th Circuit’s two-part substantial similarity analysis. First, the district court will apply the “extrinsic test” which is an objective test that considers whether two works share a similarity of ideas and expression as measured by external, objective criteria. This occurs by breaking the works down into their constituent elements, and comparing those elements for proof of copying, measured by substantial similarity. If the works are found to share a similarity of ideas and expression, thus passing the extrinsic test, then the trier of fact will apply the “intrinsic test.”

The “intrinsic test” is a subjective analysis, which asks “whether the ordinary reasonable person would find the total concept and feel of the works to be substantially similar.” Even if any one similarity, taken by itself, is unprotected, the trier of fact may find that the overall impact and effect indicate substantial
appropriation. In addition, the 9th Circuit applies the inverse ratio rule, meaning that if there is a greater showing of access, a lesser showing of substantial similarity is required.

The second suit, filed by Brown and Linzer in the Southern District of New York, will be analyzed using the “more discerning observer test” of the 2nd Circuit because the works contain both protectable and unprotectable elements. This test asks whether the defendant’s work is substantially similar to the protectible elements of plaintiff’s work. Therefore, the unprotectable elements of plaintiff’s work are extracted and not part of the analysis. Similar to the 9th Circuit’s inverse ratio rule, the 2nd Circuit allows for a “striking similarity” analysis to overcome a lack of evidence of “access.” The plaintiff must demonstrate that the similarities between the two works are so strikingly similar that they are of the kind that can only be explained by copying, rather than by coincidence, independent creation, or prior common source. However, this test is applied with stringency in cases involving popular music.

Therefore, despite the claimants’ evidence of substantial similarity, it is possible that these suits will have extremely different outcomes due to the contrast in the courts’ analyses.

**Shape of You Suit: Infringement Running Rampant on Judicial Resources**

On April 6, 2022, High Court Judge Anthony Zacaroli ruled in favor of Ed Sheeran (along with his co-writers, Johnny McDaid and Steve McCutcheon) declaring that there was no infringement of a song titled “Oh Why” in the mega-hit “Shape of You”. This judgement comes after an extended battle over the alleged infringement with Sheeran and team filing for a declaration of non-infringement back in May of 2018.

Sheeran’s “Shape of You” was released in 2017 and quickly became the best-selling digital song that year – even amassing over 5.6 billion views on YouTube. By 2021, the hit song became the first to conquer over 3 billion streams on Spotify. However, an infringement claim followed suit. Dylan Smith, *Ed Sheeran Wins ’Shape of You’ Copyright Suit: ‘There Is a Need for a Safe Space for All Songwriters to Be Creative’*, DIGITAL MUSIC NEWS (April 6, 2022), https://www.digitalmusicnews.com/2022/04/06/ed-sheeran-shape-of-you-lawsuit-win/.

Sami Chokri, under the artist’s name Sami Switch, who co-wrote the song “Oh Why” with Ross O’Donoghue alleged Sheeran and team borrowed from them to create “Shape of You.” *Sheeran et al. v. Chokri et al., [2022] EWHC 827 (Ch).* Chokri and O’Donoghue claimed that the hook of their song was copied in “Shape of You” where the phrase “Oh I” is sung, three times, to the tune of the first four notes of the rising minor pentatonic scale commencing on C#. *Id.* While this “Oh I” phrase is catchy, it is not the hook of the “Shape of You” which has multiple other “catchy” phrases that are repeated much more often in the song. *Id.* However, Chokri claimed that the “Oh I” phrase copied from the eight-bar chorus of “Oh Why,” in which the phrase “Oh why” is repeated to the tune of the first four notes of the rising minor pentatonic scale, commencing on F#. *Id.* In May of 2018, Sheeran and team sought a declaration asserting that they had not infringed following the Chokri team’s notifications to the Performing Rights Society Limited (“PRS”) of their contention that they should be credited as songwriters of “Shape of You” – which led the PRS to suspend all payments to Sheeran and team in respect to the public performance and broadcast of “Shape of You.” *Id.*

However, as the case went on, it became quite clear that the necessary access needed to prove actual copying was thin and wildly discredited. Perhaps one of the largest claims from Chokri was that his team had played his song for Sheeran before “Shape of You” came to be. *Id.* Through cross-examination and discovery, it was found that Chokri never reached out to Sheeran’s team nor was his music played to anyone close to Sheeran’s team. *Id.* With no evidence of access, the declaration of non-infringement was
This case raised a larger issue for artists in protecting their works and the ability to create new works – especially in music. Sheeran missed out on over two million dollars in royalties during his suit, an incredibly large sum for an incredibly faulty infringement claim. Dylan Smith, Ed Sheeran Wins ‘Shape of You’ Copyright Suit: ‘There Is a Need for a Safe Space for All Songwriters to Be Creative’, DIGITAL MUSIC NEWS (April 6, 2022), https://www.digitalmusicnews.com/2022/04/06/ed-sheeran-shape-of-you-lawsuit-win/. With music copyright cases on the rise – as evidenced by a Florida-based indie group naming Dua Lipa in an infringement claim for her hit, “Levitating” – time will only tell if more stringent processes will be implemented to screen for legitimate copyright protection against bogus claims. Not only are some of these cases exacerbating judicial resources but we could also begin seeing a chilling effect on the artists themselves.

**How Much Open Access is Too Open? Library E-Book Compulsory License Legislation**

E-Books have become increasingly popular options for library goers over the past decade while library e-Book licensing rates have risen exponentially in that same time. These licenses are often short-term licenses, meaning that libraries would pay many times over for an e-Book license compared to a physical book purchase. David Moore, Publishing Giants Are Fighting Libraries on E-Books, SLUDGE (Mar. 17, 2022), https://readsludge.com/2022/03/17/publishing-giants-are-fighting-libraries-on-e-books/ [hereinafter Moore, supra]. The American Libraries Association suggests that a library may pay over $50 for a two-year license for an e-Book, which could then total over $500 for the one e-Book over a twenty-year period, while a consumer could purchase that book once, permanently, for less than $20. *Id.*

In response to these rising costs, Maryland became the first state to pass a law requiring publishers to grant licenses to public libraries on “reasonable terms” in Spring 2021. Andrew Albanese, Maryland Legislature Passes Bill Supporting Library Access to Digital Content, PUBLISHERS WEEKLY (Mar. 11, 2021), https://www.publishersweekly.com/pw/by-topic/industry-news/libraries/article/85785-maryland-legislature-passes-law-supporting-library-access-to-digital-content.html [hereinafter Albanese, supra]. This law essentially created a compulsory license structure for e-Books. *See id.* The bill passed both legislative chambers unanimously. *Id.* Other states have also discussed similar laws. *Id.* New York’s equivalent bill, Senate Bill S7576, did not make it to the floor during its first introduction in 2019–2020 session. S 7576, 2020 N.Y. Sess. Laws. However, the state passed similar legislation in 2021 only to be vetoed by their governor over concerns about the bill’s legality. David Moore, Publishing Giants Are Fighting Libraries on E-Books, SLUDGE (Mar. 17, 2022), https://readsludge.com/2022/03/17/publishing-giants-are-fighting-libraries-on-e-books/. In total, six states have considered such bills. *Id.; Evolution of Ebook Bills*, EVERY LIBRARY INST. (Mar. 9, 2022), https://www.everylibraryinstitute.org/evolution_ebook_bills.

laws “disregard that copyright law is exclusively the domain of the U.S. Congress.” Id. at ¶ 31–32. It also describes the law as stripping away the exclusive rights of distribution and broadly structured, despite potential civil and criminal liability. Id. at 12–14.

Though compulsory licensing exists in music, the complaint reiterated that no such structure exists in publishing and that Congress has repeatedly declined to create that structure. 17 U.S.C. § 115; Compl., AAP v. Frosh, No. 1:21-cv-03133-DLB, at ¶ 56. The Copyright Act does, however, have special carve outs for libraries. Id. at ¶ 57; 17 U.S.C. § 108. The AAP concluded their complaint before the specific causes of action by describing the other ways in which to address growing and evolving demand for e-Books. Compl., AAP v. Frosh, No. 1:21-cv-03133-DLB, at ¶ 67–70. The AAP specifically asked the court to declare the law as invalid, provide an injunction, award attorneys’ fees, and grant any other further relief. Id. at 30.


In terms of market solutions, Amazon is reportedly in talks to enter into large-scale library licensing efforts for their e-Books. Albanese, supra. The company sells a vast majority of e-Books controlling upwards of 90% of the market. Moore, supra.

You Can’t Build an Infringement Case with the “Building Blocks” of Music: Ninth Circuit Affirms “Dark Horse” Win for Katy Perry

The now seemingly infamous “Dark Horse” case has had a winding and media frenzied road to the Ninth Circuit over the past eight years. Christian rapper Marcus Gray and his collaborators first sued Perry and her collaborators in 2014. Complaint, Gray v. Perry, No. 2:15-CV-05642 (C.D. Cal. July 1, 2014), ECF No. 1. They claimed that Perry’s 2013 track “Dark Horse” infringed their similarly sounding song “Joyful Noise.” Gray v. Hudson, 28 F.4th 87, 92 (9th Cir. 2022). A jury found for Gray to the tune of $2.8 million in damages. Id. However, the district court overturned this verdict on its own accord as a judgment as a matter of law because the allegedly similar ostinato—short, repeated pattern—lacked sufficient originality. Gray v. Perry, No. 2:15-CV-05642-CAS-JCx, 2020 WL 1275221 (C.D. Cal. Mar. 16, 2020). As predicted in the last issue of Entertainment and Sports Lawyer, the Ninth Circuit indeed affirmed this victory for Perry and her collaborators in March 2022. See Will the Ninth Circuit Unblur the Lines Surrounding Music Copyright Infringement? Stay Tuned. in Litigation & Industry Update, 38 ENT'T & SPORTS LAW., Mar. 2022, at 53–54; Hudson, 28 F.4th 87.

The two eight-note ostinatos in “Dark Horse” and “Joyful Noise” are very similar in that they both contain eight notes, are both based in the minor scale, and both patterns hold each note for the same amount of time. Id. at 94. They also start with the same six scale degrees—distances between the notes on the staff—though these series start on different notes. Id. The last two scale degrees differ from one another. Id. Note that the “Dark Horse” ostinato is comprised of the same eight notes over and over but the ostinato in “Joyful Noise” technically has two different eight-note series back-to-back, though both of these series have the same first six scale degrees while two different scale degrees end each of
the eight note series. *Id.* Both of these sets of last two notes are different scale degrees from the last two scale degrees in the “Dark Horse” ostinato. *Id.* This means that the ostinatos of each song are in different keys, because they start on different notes, but the series of notes have the same relationship between the subsequent notes for the first six notes of the eight-note ostinato. The last two notes, however, have different relationships in each ostinato.

Gray and his collaborators never “present[ed] any direct evidence that defendants copied Joyful Noise’s ostinato” and were therefore required to prove Perry and her collaborators had both access to “Joyful Noise” and that the ostinatos of the two songs were “substantially similar.” *Id.* at 96. Because both elements are required, the court only focused on the latter, which requires a two-part, extrinsic and intrinsic test. *Id.*

The court began with the extrinsic test, which requires a delineation of the protected and unprotected elements. The protected elements portion favored Perry and her collaborators because “no single point of similarity between Joyful Noise and Dark Horse arises out of a protectable form of expression” and that, “[p]lainly, no person may copyright the minor scale, as such scales are common musical building blocks belonging to the public.” *Id.* at 98. The court also pushed back on the plaintiff’s contention that the scale degrees constituted a melody, noting, “Creating a melody involves more than writing down a sequence of pitches.” *Id.* at 99. The court lastly stated that “[w]hile an eight-note melody may be copyrightable, the abstract eight-note pitch sequence that is a component of the melody is not” and compared a pitch sequence to a chord progression. *Id.* at 100. The unprotected elements portion of the extrinsic test also favored Perry and her collaborators because the overlapping ostinato portion is “a manifestly conventional arrangement of musical building blocks,” *Id.* at 101–02, and thus “lacks ‘the quantum of originality needed.’” *Id.* at 102 (quoting *Satava v. Lowry*, 323 F.3d 805, 811 (9th Cir. 2003)).

Because Gray and his collaborators failed to show that the two songs were extrinsically similar, the court ruled for Perry and her collaborators. *Id.* at 103. This provided an answer for the copyrightability of “musical building blocks” in simple, repeated beats commonplace in so many songs today—at least in the Ninth Circuit.

**Art in Court: New York’s New Bill to Limit Creative Works as Evidence in Criminal Trials**

Two New York state senators introduced the Rap Music on Trial bill in November 2021 in an effort to combat defendants’ creative expressions from being introduced as evidence against them “without clear and convincing proof that there is a literal, factual nexus between the creative expression and the facts of the case.” Press Release, Brad Hoylman, State Senator, N.Y., Senators Brad Hoylman & Jamaal Bailey Introduce “Rap Music on Trial” Legislation to Prevent Song Lyrics From Being Used As Evidence In Criminal Cases (Nov. 17. 2021). Senator Bailey, the bill’s sponsor, suggested that “[t]he admission of art as criminal evidence only serves to erode [the] fundamental right [of free speech], and the use of rap and hip-hop lyrics in particular is emblematic of the systemic racism that permeates our criminal justice system.” *Id.*

Prominent rap artists have spoken out in support of the bill. Jay-Z’s attorney Alex Spiro and University of Richmond professor Erik Nielson penned a letter in support for the bill, which was signed by Jay-Z, Meek Mill, and Robin Thicke, among others. Bill Donahue, Jay-Z, Meek Mill & More Urge New York to Limit the Use of Rap Lyrics in Criminal Cases, BILLBOARD (Jan. 19, 2022), https://www.billboard.com/business/legal/jay-z-new-york-limit-rap-lyrics-criminal-cases-1235020544/. This letter suggests that “[n]o other fictional form, musical or otherwise, is (mis)used like this in courts.” *Id.*

The bill itself passed a committee vote and has a companion bill making its way through the New York

Independent Postgame Prayer Protected Under First Amendment

On June 27, 2022, the Supreme Court determined that the First Amendment’s Free Exercise and Free Speech Clauses protects a public high school coach’s right to independently pray on the field at the conclusion of a football game. Joseph Kennedy joined Bremerton High School in Kitsap County, Washington as a football coach in 2008, a job he took after serving almost two decades in the Marine Corps. After the conclusion of each game, he knelt at the 50-yard line to offer “thanks through prayer.” Although initially praying alone, over time players asked to join him in prayer, with some team members even inviting opposing players to join. After an employee from another school positively commented on the school’s practices, the District’s superintendent sent Mr. Kennedy a letter. This letter identified his prayers as “problematic” and advised Mr. Kennedy to avoid any motivational discussions that included religious expression. Through counsel, Mr. Kennedy responded stating that because of his “sincerely-held religious beliefs” he felt “compelled” to offer a “post-game personal prayer” at midfield, asking the District to allow him to continue that private religious expression alone. The District denied Mr. Kennedy’s request and forbade him from engaging in “any overt actions” that could appear “to a reasonable observer to endorse…prayer…while he is on duty as a District-paid coach” determining that otherwise, the school would violate the Establishment Clause. After Mr. Kennedy continued to kneel at the 50-yard line to pray for the remainder of the 2015 football season, the District advised against rehiring Mr. Kennedy, despite receiving “uniformly positive evaluations” every other year of his career.

Mr. Kennedy sued the District in federal court, alleging that the District’s actions violated the First Amendment’s Free Speech and Free Exercise Clauses. The District Court denied Mr. Kennedy’s motion for a preliminary injunction requiring the District to reinstate him, concluding that a “reasonable observer…would have seen him as…leading an orchestrated session of faith.” The 9th Circuit affirmed on appeal. Mr. Kennedy then sought certiorari but his petition was denied.

Once the case returned to the District Court, the parties brought cross-motions for summary judgment. The District court rejected his free speech claim because Mr. Kennedy was hired as an “influential role for student athletes”. Thus, the First Amendment did not protect any speech offered in his capacity as a government employee. The District Court rejected his free exercise claim as well, holding that even if the policies adopted by the District were not neutral or generally applicable, the District maintained a compelling interest to prohibit postgame prayers to avoid violating the Establishment Clause. The 9th Circuit again affirmed and denied a petition to rehear the case en banc. The Supreme Court granted certiorari.

Mr. Kennedy claimed that the District violated the Free Exercise and Free Speech Clauses of the First Amendment by refusing to allow him to pray on the field at the conclusion of the football game. The two clauses are overlapping: The Free Exercise Clause protects religious exercises, and the Free Speech Clause provides protection for expressive religious activities. When bringing a First Amendment claim, the plaintiff must demonstrate an infringement of his First Amendment rights. If the plaintiff satisfies his burden, the defendant must show that its actions were justified and tailored to furthering the specified government interest.

Mr. Kennedy satisfied his burden under the Free Exercise Clause by showing that the District burdened
his sincerely held religious practice by imparting a policy that is not “neutral or generally applicable.” The school admitted to restricting Mr. Kennedy’s prayer because of its religious character, despite allowing other school employees to engage in secular conduct at the same time. In addition, the District advised against rehiring Mr. Kennedy because he failed to supervise student-athletes after games, but this requirement was not applied equitably, triggering the District’s duty to demonstrate that its restrictions were justified.

Under the Free Speech Clause, Mr. Kennedy also fulfilled his burden. Although teachers and coaches are government employees who are paid to convey the government’s message, they do not “shed their constitutional rights to freedom of speech or expression at the schoolhouse gate.” *Tinker v. Des Moines Independent Community School Dist.*, 393 U.S. 503, 506 (1969). A two-part test to determine whether the government employee’s speech is protected requires (1) a determination of the nature of the speech at issue and (2) the court to balance the competing interests surrounding the speech and its consequences.

Under the first prong, the parties agreed that religious expression is a matter of public concern but disagreed as to whether Mr. Kennedy was speaking as a government employee or private citizen. The Court determined that Mr. Kennedy’s religious practices were not demonstrated in his capacity as a government employee because he was not directing players, nor did he have a captive audience but instead used his available time after the conclusion of the game to pray independently. Therefore, Mr. Kennedy’s prayer at the 50-yard line constitutes private speech, on a matter of public concern, and thus protected by the First Amendment unless the District can successfully justify its restrictions.

The burden then shifted to the District to satisfy strict scrutiny under the Free Exercise Clause, demonstrating that the restrictions on Mr. Kennedy’s protected rights serve a compelling government interest and are narrowly tailored to that end. The District argued for the Court to apply the lower standard of intermediate scrutiny under the Free Speech Clause. However, the Court determined that the District could not uphold its burden under either of the standards.

In defense of its position to suppress Mr. Kennedy’s religious practices, the District relied on the outdated Lemon test, arguing that Mr. Kennedy’s First Amendment rights must surrender to the District’s interest in preventing a violation of the Establishment Clause. Clarifying its abandonment of Lemon, the Court stated the Establishment Clause must be interpreted by reference to “historical practices and understandings” because the clauses have “complementary” purposes, one clause will not reign over another. *Town of Greece v. Galloway*, 572 U.S. 565, 576 (2014).

Finally, the District argued that a school employee cannot express any religion because those practices could be coercive to students. The Court rejected this argument, stating that this would undermine the constitutional tradition of learning how to tolerate diverse expressive activities which is a “part of learning how to live in a pluralistic society.” *Lee v. Wesiman*, 505 U.S. 577, 590 (1992).

The Court reversed the Court of Appeals and granted Mr. Kennedy summary judgment on his First Amendment claims. *Kennedy v. Bremerton School District* protects a public school coach’s right to independent postgame prayer, but it also protects secular demonstrations of similar magnitude establishing a win for First Amendment rights.

**Esports Industry Update - Layoffs, SPACs, and Crypto**

In 2021, the esports industry flourished as a result of a pandemic-fueled viewership pop. The industry’s growth rate has dissipated but continues an upward trajectory into the first half of 2022. This note will examine the impact of layoffs on the industry, a potential template for esports organizations looking to navigate the current landscape.
to become publicly traded, and how cryptocurrency sponsorships have helped the industry survive the current market conditions.

Even the most successful esports organizations are susceptible to the recent economic downturn. Many organizations across the esports landscape have had to lay off individuals based on pandemic-inflated projections and the looming financial crisis. The two most valuable teams in Esports, TSM FTX and 100 Thieves, both had to lay off dozens of employees this past summer to tighten their belts. These layoffs in the esports space do not appear to be coming to a close any time soon. Like any industry, esports organizations need to ensure that their businesses are staying legally compliant and limiting exposure when terminating employees. Counsel advising esports organizations during these recent rounds of layoffs should ensure their clients are preparing well in advance and developing objective criteria for determining which employees are going to be laid off. Organizations should also examine whether such criteria has a disparate impact, meaning that it appears to be neutral on its face but in practice results in unequal impacts on protected groups. Once the individuals are chosen to be laid off, esports attorneys need to ensure compliance and contain required releases as required by federal law, like the ADEA for employees over the age of 40, and state-specific legal requirements. The esports industry is still growing, but the economic downturn has substantially affected its business model requiring lawyers to ensure these organizations stay compliant.

One sign of the Esports industry’s continued growth has been the successful initial public offerings (“IPOs”) of corporations in the space. Earlier this year, FaZe Clan began trading on the NASDAQ after completing a special purpose acquisition company (“SPAC”) merger in a deal valued at $725 million. The move sent shockwaves around the M&A and esports markets as the largest of its kind to date. The Sports SPAC market has slowed down significantly in 2022 with SPACs having difficulty finding acquisition targets - the FaZe Clan SPAC IPO was the first of its kind in quite some time. The process of a SPAC IPO begins when a private company reaches maturity, decides that it is time to go public, and seeks out institutional investors to participate in the IPO. A SPAC is formed is then formed when financial sponsors raise a sum of money from public investors to purchase a private company. These funds are deposited in a trust until the desired private company reaches a deal or the SPAC finds another target within 24 months. Unlike a traditional IPO where money is raised from outside investors, the private company takes the money from the SPAC trust in exchange for an agreed-upon percentage of company shares. The private company then becomes public as the SPAC completely merges with the private company. SPAC IPOs allow private companies to come to market faster, with less regulatory burdens, and a direct influx of capital. Many sports and entertainment companies have used SPACs to go public including DraftKings and the XFL. FaZe Clan’s SPAC IPO was a significant milestone in the steady success of the esports industry as a whole.

The market for sponsorships in the esports industry continues to climb. Sponsorships make up the bulk of an esports organization’s funding. Similar to the traditional sports arena, esports companies have been flush with sponsorship revenue from cryptocurrency firms. Last summer, FTX entered into a 10-year, $210 million deal with Team SoloMid, the first deal between an esports team and cryptocurrency exchange and the largest sponsorship in team history. In discussing the success of FTX’s sponsorships in esports, company Founder and CEO Sam Bankman-Fried said “the amount of brand impact has been much greater from the esports side than it has from the traditional sports side” and that marketing metrics from their esports sponsorships have been “shockingly high.” FTX isn’t the only crypto firm getting in on the esports sponsorship action. Coinbase sponsored organizations like Team Liquid, Evil Geniuses, and BIG in multimillion-dollar endorsement deals. Even the blockchain networks themselves like the Tezos Foundation are using esports sponsorships to market their coins and NFT projects. Crypto firms want the esports audience and esports startups need the cash. Any organization that is engaging in an endorsement
deal with a cryptocurrency company needs to be wary of the implications related to securities law and FTC regulations that come with marketing these investment vehicles.

Even amid an economic downturn, the esports industry continues to grow. The industry has suffered some setbacks through major organizational layoffs which are impacting pretty much every industry. This growth has been spurred by cryptocurrency sponsorships and SPAC IPOs that may create legal uncertainties that practitioners should be aware of to properly advise their clients.

NIL A Year in Review

A little over a year since college athletes have been able to profit off of their name, image, and likeness ("NIL") the college sports industry looks very different today than it did on June 30th, 2021. Many within the NCAA inner circle believed the ability for collegiate athletes to be compensated for their NIL would be the demise of their business model. Over a year into the NIL era and the NCAA brain trust seems to be unreservedly incorrect. This brief note will review the NIL metrics for the past year, federal legislation seemingly at a standstill, and privacy lawsuits related to college athletes’ NIL data.

The NIL era of college athletics started with a bang. As one would expect, social media was the main catalyst for NIL deals throughout the first year. NIL marketplace Opendorse projected that the total amount spent was about $917 million. Football and men’s basketball were the most lucrative sports for players with the most deals. However, NIL platform INFLCR stated that gymnastics had the highest average deal valuation at about $7,000 per endorsement. Comparatively, an average football deal was around $3,400. According to Opendorse, Men’s sports received 62.7% of total NIL compensation compared to 37.3% for women athletes. If football is removed from the equation, women earned 52.8% of the compensation against 47.2% for the men. These deals range anywhere from a couple hundred to millions of dollars depending on the athlete and the endorsement. Attorneys reviewing NIL deals on behalf of the college athletes need to ensure that their clients are maintaining their eligibility by operating within the safeguards of the current NCAA NIL framework and limiting legal exposure as they would in any other endorsement deal.

It is no surprise that the NIL industry took off quickly, but its continued success is somewhat of a question mark. There is still no federal legislation related to NIL that seems to have a serious chance of gaining bipartisan support. The latest attempt at federal NIL legislation was made in July when five Democrat US Senators reintroduced the “College Athlete Bill of Rights” legislation that Senators Corey Booker and Senator Richard Blumenthal introduced in December 2020 and did not have much success making it through committee. The bill would codify college athletes’ rights to profit off their NIL through endorsements and other activities banning schools from prohibiting or discouraging any athlete from endorsement deals of any sort. Many school officials are concerned that this provision would negatively impact the athletic department’s ability to enter into exclusive deals with team apparel companies where schools have traditionally been able to require their athletes to wear a certain sponsor’s brand at team events. The bill also includes provisions related to strengthening Title IX compliance and annual reporting requirements, both measures are opposed by Republican Senators. It does not appear that the College Athlete Bill of Rights has much chance of making it through the Senate floor, but practitioners should still be aware of the potential impact of the bill on NIL markets and the college sports industry as a whole.

Unsurprisingly, NIL being a billion-dollar industry that is followed closely by millions of college sports fans has led to litigation related to the release of student records. While Opendorse and INFLCR release anonymized information related to college athlete data per their agreements with athletic departments, institutions themselves have to comply with the Family Educational Rights and Privacy Act (“FERPA”) which requires universities to keep education records private unless there is student or parental consent

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to the contrary. In the alternative, and as many media companies have tried to apply, the business records of a university are not protected by FERPA. Recently, *Athens Banner-Herald* filed a lawsuit against the University of Georgia for denying the newspaper’s Freedom of Information Act (“FOIA”) request for the NIL disclosure forms that the college’s athletes are required to fill out. Georgia rejected the FOIA request on FERPA grounds that the records were related to the athlete’s education. This lawsuit came two weeks after a Louisiana court ruled against a local news station that sued Louisiana State University over the rejection of a FOIA request for its athlete NIL agreements on the same FERPA grounds. The court rejected the news station’s argument that Louisiana’s NIL law did not include a public records exception and that the NIL agreements were business records rather than education records protected by FERPA. Litigation up to this point has largely maintained that NIL records are protected education records rather than the business records that media companies wish they were. Universities responding to FOIA requests from media outlets need to ensure that their processes are being applied in a uniform method and that the education records of their athletes are being protected.

After a year of NIL deals, lawyers working in the space have undoubtedly been busy. There have been a lot of deals that have made college athletics a better place to be an athlete. Counsel advising athletes on such deals need to ensure that sponsorships are just endorsements and not inducements that would negatively impact their client’s ability to participate in NCAA athletics. While bona fide NIL federal legislation has been reintroduced, it appears that the current framework will continue to be the status quo for the time being. The NIL industry is booming and is here to stay.

**When Will Songwriters Get Their Money?**

In March of 2018, songwriters saw only their second meaningful rate increase in 110 years when the Copyright Royalty Board (CRB) ruled to increase the royalty rates from compulsory mechanical licenses paid to songwriters and publishers by 43.8% for the years 2018 through 2022. The CRB required streaming services, such as Spotify and Amazon Music, to increase the percentage of revenue paid to songwriters and publishers to 15.1% - nearly five percent more than the past 10.5%. Additionally, the ruling stipulated that if a higher figure results, streamers would have to pay up to 26.2% of their Total Content Costs (TCC) across both publishing and records. With such large increases, it is no surprise that digital service providers (DSPs) were quick to appeal the decision.

Despite the four months and millions of dollars spent on the initial proceeding, those costs paled in comparison to the lengthy appeals process that is just now seeing an outcome – four years later. On July 1, 2022, the CRB affirmed its original ruling of the 15.1% headline rate. However, with this win for songwriters, the CRB also handed over a win to the DSPs. The original 2018 ruling stated that the TCC figure could be calculated from an “uncapped” amount, or an unlimited number (even if a streamer had a massive revenue stream that year). However, the new ruling following the appeal changed to encompass a new cap on what that figure could be, saving many DSPs large sums of profits that would have otherwise gone to songwriters. Additionally, the streamers scored another win with their appeal in that certain bundle definitions (covering family plans, telco deals, and other discounts) were reverted to the terms outlined in the pre-2018 *Phonorecords II* agreements. All in all, streamers will be paying out large lumps of cash to songwriters – just with some minor caveats to limit how much cash will actually be flowing.

Moreover, with this recent proceeding and appeal, two major issues arise. The first issue relates to how the new rates will be set for the following period. The CRB convenes every five years to establish a new rate. Although with CRB III concluding now (for what was supposed to govern 2018-2022), with more possible appeals along the way, it remains unclear as to how CRB IV will determine its new royalty rates for the next cycle. There are many considerations now at play and millions of dollars being spent by both sides in this ongoing legal battle.
The second, and arguably more important, issue is that while the songwriters may have won this battle, the war rages on. It is still unclear when the rates won in 2018 will be paid to songwriters. Yes, while the appeals process was ongoing, the streamers did not have to comply with the increased headline rates and must do so now. The streamers have petitioned for an extension as to the time they have to pay out what was ordered. For now, the retroactive increase is to be paid within six months – although it is likely the streamers’ petition will be granted. It is disappointing to see that even though tech giants like Spotify and Amazon (Apple abstained from the appeal, although will benefit from it either way) generate and spend millions of dollars in license fees or paying out rates, they still cannot find a way to compensate the songwriters creating content for the giants in the first place. Payment imbalances continue to plague the industry and it will take efforts across the board to level the playing field.

Sources:


Paul Resnikoff, **Songwriters, Publishers Win a Landmark 43.8% Royalty Increase from Streaming Music Platforms — Spotify, Google, and Amazon Are Still Fighting Back, DIGITAL MUSIC NEWS** (July 2, 2022), https://www.digitalmusicnews.com/2022/07/02/songwriters-publishers-crb-streaming-royalty/.

**Operation 404 and the Resurging Battle Against Music Piracy**

In 2019, Brazilian law enforcement initiated an anti-piracy operation, known as “Operation 404,” to crack down on illegal access to copyrighted music. The name Operation 404 stems from the common error code that pops-up on your computer screen when the server is unable to locate a requested webpage. With the help of authorities from the United States and United Kingdom, Brazil’s counterattacks on music piracy have led to the successful identification and removal of hundreds of websites and apps that illegally distribute copyright-protected music. On June 27, the U.S. Justice Department and the Government of Brazil announced their latest sting on music-pirating sites.

Brazil’s Ministry of Justice reports this rendition of Operation 404 led to the seizure of 461 apps, 226 websites, and 15 social media accounts. “Operation 404.4,” as it was dubbed, led to the arrest of 12 individuals throughout Brazil who now face a penalty of two to four years imprisonment and a large fine. Brazil’s report also mentioned Operation 404.4 was the first time take down actions “took place in the metaverse.” Although no additional explanation was provided, this news serves as notice that law enforcement remains on the lookout for new types of piracy.

In addition, the United States Department of Justice and Homeland Security Investigations (HSI) announced the collective takedown of six websites whose domain names were registered with U.S.- based registrars. Unsealed court records show a law enforcement investigation confirmed the six websites had copyright- protected music readily available for users to illegally stream and download. An affidavit in support of a seizure warrant submitted to the Eastern District of Virginia lists Bad Bunny, Maluma, J Balvin, Maffio, and Daddy Yankee as artists whose music was distributed without authorization. See In re flowactivo.co, et al., No. 1:22-sw-330 (E.D. Va.); In re corourbanos.com, et al., No. 1:22- sw-331 (E.D. Va.). Those who visit these websites now encounter a HSI notice which indicates the website has been seized pursuant to a warrant under 18 U.S.C. § 2323. Brazil’s efforts to curb music piracy and copyright infringement stem from the country’s rapid increase in music consumption. According to the International Federation of the Phonographic Industry (IFPI), Latin America has the second highest growth rate in music consumption in the world.

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music consumption globally, and streaming accounts for over 85% of Latin America’s music consumption. In contrast, copyright infringement generates annual losses equivalent to roughly $2.8 billion. Thus, Operation 404 stands to protect the growing industry from illegal services who are stealing profits from streaming platforms and artists in one of Latin America’s flourishing industries. The United States continues to deal with piracy issues of their own. According to MUSO’s Piracy by Industry Data Review for 2021, music piracy in the U.S. has decreased 65% since 2017. However, between Q4 of 2020 and Q4 of 2021 there has been an 18.6% increase. Music piracy may not be the towering threat it was in the 2000s, but it continues to persist as an issue the music industry must deal with.

Perhaps growing music industry revenues and accessibility to music via streaming has eased the pressure to tackle copyright infringement and music piracy. However, the Justice Department’s recent take down efforts show they are taking music piracy as serious as ever. Operation 404.4 is unlikely to be the final wave of takedowns. This latest operation came on the heels of the RIAA’s default judgment for $83 million in damages from YouTube “stream-rippers.” See UMG Recordings, Inc. v. Kurbanov, No. 1:18-cv-957-CMH-TCB, 2021 WL 6447086 (E.D. Va. Sep. 15, 2021), report and recommendation adopted, No. 1:18-cv-957, 2021 WL 6447056 (E.D. Va. Oct. 1, 2021).

If anything, the battle against music piracy in the United States is only getting started, and the success of Operation 404 should put the rest of the internet and world on notice.
Anatomy of a Multimillion-Dollar Film Fraud: The untold story and aftermath of one of Canada’s largest Ponzi schemes that bilked over a thousand investors out of millions predicated on a fraudulent portfolio of film loans

James Huddleston

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When the house of cards finally came tumbling down on this decade-long fraud in Spring 2017, Canada’s Crystal Wealth Management (“Crystal Wealth”) claimed to have $193 million under management in 15 investment funds.1 Little did investors know that through a series of misappropriations, a slew of inter-fund investments, and tens of millions in largely illiquid and unsecured placements, most notably in a portfolio of film loans, the fair market value reported to investors, regulators, and its auditor was a farce.

Thankfully, through a decisive investigation by the Ontario Securities Commission (“OSC”) and a thorough multi-year receivership, more than $100 million in investment capital contributed by some 1,265 Canadian investors in discretionary accounts managed by Crystal Wealth was recovered and returned—a rarity for private placement frauds.

The following examination as it relates to Crystal Wealth and all other associated parties referenced in the investigation and proceedings conducted by the OSC and Grant Thornton as Receiver was constructed through research and analysis of publicly available documents, including Affidavits, Court Orders, Settlement Agreements, Receiver Reports, Examination Transcripts, Applications, and Motions.

• **Part I** provides an overview of Crystal Wealth, including its structure, investments it offered, and findings uncovered in the investigation by the OSC and Grant Thornton Ltd. (“Receiver”), including outcomes and the status of the receivership.

• **Part II** describes specific fraudulent activity uncovered by the Receiver, including misappropriations of investor capital, material conflicts of interest, inter-fund transactions, and unsupportable Ponzi payments via redemptions and distributions.

• **Part III** highlights some of Crystal Wealth’s more ruinous placements, including factoring contracts and gold loans, as well as investments in National Football League (“NFL”) participation agreements relating...
to concussion injury litigation.

- **Part IV** takes a deep dive into the Crystal Wealth’s (“Media Fund”) and the film loans at the epicenter of the fraud, including how the loans were originated, structured, and valued. It concludes by examining the film production company associated with the Media Fund that has escaped liability for its role despite vocal concerns by the OSC and the Receiver.

- **Part V** details the fallout for Crystal Wealth’s auditor, BDO Canada LLP (“BDO”), which settled with the OSC and the Receiver in separate matters totaling $36.5 million. Notwithstanding these sanctions, BDO recently dodged a $175 million investor class action, which failed to get certified after hearings in the Ontario Superior Court of Justice and the Ontario Divisional Court. Motions for leave to appeal were rejected in the Court of Appeal for Ontario and finally in the Supreme Court of Canada.

**PART I: RISE AND FALL OF A PRIVATE PLACEMENT FRAUD**

**Sole Operating Mind**

Crystal Wealth was founded by Clayton Smith (“Smith”) in 1998 as an Ontario-based corporation that was registered with the OSC as an Investment Fund Manager, Exempt Market Dealer, Portfolio Manager, and Commodity Trading Manager. Smith was the operating mind as the sole director and officer behind Crystal Wealth and was registered with the OSC as a Portfolio Manager, Investment Fund Manager, Chief Compliance Officer, and Ultimate Designated Person.

At the commencement of the OSC’s investigation, Crystal Wealth had created and managed 15 open-ended mutual fund trusts (“Funds”), which fulfilled the role of Trustee, Portfolio Manager, and Promoter. The Funds were sold to investors on an exempt basis pursuant to offering memoranda. Unfortunately, the Funds were organized to accept relatively small placements from individual retirement accounts, making it possible for Crystal Wealth to target unsophisticated investors with risky investments. One revelation that emerged early in the investigation is that the Funds made investments that did not adhere to their respective offering memorandums.

**The Beginning of the End**

In April 2017, on Application by the OSC to the Ontario Superior Court of Justice (Commercial List), the Court issued a Temporary Order pursuant to sections 127(1) and 127(5) of the Securities Act, RSO 1990, c S.5, Freeze Directions, and Appointment Order of Grant Thornton as the Receiver over all assets and property associated with Crystal Wealth, Smith, and the 15 Funds under management.²

The tip of the iceberg for the OSC, and its reasoning for appointing the Receiver, were two red flags involving the Media Fund.

First, the OSC presented evidence that Smith advanced nearly $10 million from the Media Fund to two companies controlled by Media House Capital (“Media House”), the company that originated and sold the film loans to the Media Fund. Purportedly this $10 million was advanced to purchase film loans, but, in fact, these funds were diverted to two personal accounts controlled by Smith. These investor funds were then used to purchase a multimillion-dollar estate, pay massive credit card bills, and acquire a yoga studio for Smith’s then common-law spouse. Notably, the film loans between Crystal Wealth and Media House are at the heart of one of the largest Ponzi schemes in Canadian history.

Second, the OSC raised concerns that the valuations of the film loans purchased by the Media Fund were “materially overstated.” These illiquid, and in some cases seemingly fabricated loans, were the lynchpin
of the fraud since other Crystal Wealth Funds were vicariously invested in the Media Fund through inter-fund unit purchases.\(^3\) These issues and other irregularities are enumerated in detail throughout the Affidavits of Marcel Tillie (“Tillie Affidavit”) and Michael Ho (“Ho Affidavit”), both Senior Forensic Accountants with the Enforcement Branch of the OSC.

The investigation that unfolded after these initial findings would reveal numerous instances of misappropriations, conflicts of interest, and a bevy of irregularities involving the film loans funded by the Media Fund through Media House.

**Smith’s Speedy Settlement**

Smith never presented a challenge to the Superior Court’s Temporary Order and failed to secure representation. One year after the Receiver’s appointment in May 2018, Smith entered a settlement agreement with the OSC for fraud stemming from misappropriations and for breaching his duties to act fairly and in good faith with investors.\(^4\)

Under the terms of the settlement, Smith was stripped of the registrations granted to him under Ontario securities law and permanently barred from trading in securities and holding a registered position in the finance industry.\(^5\) Smith was also fined $250,000 and agreed to pay costs of $50,000. As stated in the OSC’s reasoning, but for the Receiver’s appointment over the assets of Smith and Crystal Wealth, they would have sought significantly greater monetary sanctions.\(^6\)

As of February 2021, Smith had not made any payments to the OSC. An extensive report published by The Globe and Mail in December 2017 concluded that the OSC had over $360 million in unpaid fines, of which 63\% were from repeat offenders. Astonishingly, the investigation uncovered that collection rate for fines due to the OSC was only 3\%.\(^7\)

**Smith Gets a Slap on the Wrist**

Compared to similar cases in the United States, Smith walked away nearly unscathed. While he did forfeit the assets he acquired with investor funds and is suspended from operating in the investment business for life, he is a free man after living the high life on investors’ dime for a decade. Although the financial detriment of his activities likely exceeded the official $11.9 million of traceable misappropriations asserted by the OSC, Smith has thus far avoided jail time in connection with any ongoing criminal investigation by law enforcement. Based on the Receiver’s discoveries, its findings were presented to the Ontario Provincial Police and the Royal Canadian Mounted Police in late-2017. However, there is no evidence of an ongoing criminal investigation.

Comparatively, there was a similar film fraud perpetrated by Los Angeles-based Steven Brown from 2009 to 2017 that defrauded U.S. investors out of USD$12.5 million. The fraud was investigated by the FBI and prosecuted by the U.S. Attorney’s Office for the Southern District of New York. For his role in falsifying financial documents, misrepresentations, and misappropriating funds for unrelated expenses, Brown received a 63-month custodial sentence and was ordered to forfeit over USD$673,000.\(^8\)

In addition to sanctions against Smith, a portfolio manager that raised funds for Crystal Wealth, Albert Housego (“Housego”) was recently fined $150,000 and banned from the securities business for 15 years by the British Columbia Securities Commission.\(^9\) From September 2014 to April 2017, Housego raised over $10 million from some 487 clients to capitalize four Crystal Wealth Funds. Based on the size of these investments and the number of clients involved, the average unit purchase was relatively modest. For instance, Housego placed 323 investors in the worthless gold contracts discussed in Part III, totaling $6.7 million.\(^10\)

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Investors Surprisingly Recover Substantial Sums

It is difficult to convey the consistency by which Smith made one disastrous investment after another, but within the first nine months of the Receiver’s investigation at the end of 2017, the Receiver had serious concerns about the collectability of $116 million of the purported $193 million in net asset value (“NAV”).

Usually recovering investment capital defrauded in private placement frauds is futile. The base-case for a fraud like Crystal Wealth is exemplified in the Merendon Mining case, which was then labeled Canada’s largest Ponzi scheme after bilking 2,000 investors out of at least $100 million. The resulting lawsuit took from 2009 to 2015 to reach the courts and concluded in a five-month criminal trial whereby the main perpetrator was sentenced to 12 years in prison. Sadly, only $1.5 million was recouped, of which $987,000 went to the bankruptcy attorney, illustrating how rare it is to recoup significant sums in private placement Ponzi schemes.

Amazingly, however, since the Receiver’s appointment in April 2017, over $110 million has been recovered, resulting in three distributions to investors, exceeding $103 million despite the highly impaired status of Crystal Wealth’s placements. This unusual outcome results from the Receiver, as authorized by the Court, aggressively pursuing multiple third parties that defaulted on financial obligations owed to the Funds managed by Crystal Wealth, including through litigation.

The Receiver is still pursuing many outstanding obligations to the Funds, but after five years, the matter is winding down. Minor distributions might be forthcoming, but the bulk of funds have already been recovered. Losing money to fraud is never easy, but without prompt action by the OSC and the Receiver, Smith’s shell game using the allure of Hollywood would have likely destroyed all the capital contributed by the investors.

PART II: MECHANICS OF THE FRAUD

As previously mentioned, most of the investments made by Crystal Wealth’s Funds were inconsistent with their corresponding investment memorandums. Furthermore, virtually all the investments were thinly documented, extremely risky, and nearly completely illiquid. More troubling is that these unconventional placements were concentrated among a few companies with close relationships with Smith and other Crystal Wealth associates.

Since Smith was the sole operator of Crystal Wealth and was responsible for performing every single regulatory function, which should be a statutory impossibility, there was no segregation of duties or external oversight. Unsurprisingly, the books and records of Crystal Wealth and its Funds were severely deficient, and in many cases, documentation for multimillion-dollar placements was entirely non-existent.

Misappropriating Investor Funds

Beyond multiple failures to manage Crystal Wealth with even a modicum of professionalism, combined with several examples of breaches of statutory duties of care, Smith boldly misappropriated millions in investor funds for personal expenditures.

There were several examples of Smith misappropriating investor funds. One of the more peculiar examples involved funding his then common-law spouse’s yoga studio, where he taught yoga and meditation part-time. Smith used his holding company as a pass-through to divert funds from Crystal Wealth’s Mortgage Fund (“Mortgage Fund”) to the yoga studio. In another instance, he forwarded...
six payments over six months totaling nearly $900,000 to another company that was represented as a mortgage broker, which it was not, instead over $500,000 went directly to the yoga studio, and nearly $400,000 went to Smith and his holding company. According to financials produced in testimony with Smith’s then common-law spouse, he remitted a total of $2.4 million to the yoga studio from various Crystal Wealth entities as loans. However, as part of the couple’s separation agreement, he gracefully reduced the amount due to $1.2 million.

Although the Media Fund is addressed in great detail in Part IV, two of the more brazen examples of misappropriations were conducted with Media House’s involvement. In the first example, the Media Fund forwarded funds to Media House for several film loans, but then Smith directed Media House to send over $2.7 million back to him and his holding company and $125,000 to the yoga studio. In the second example, Media House was used again as the middleman to help Smith purchase a multimillion-dollar residential property. Smith directed a service provider for the Mortgage Fund to send $1.25 million to a company associated with Media House supposedly for film loans but then directed the company to forward $1 million to Smith’s lawyers and another $200,000 to his holding company to help fund the purchase of a sprawling estate located in the desirable Mount Nemo area of Burlington, Ontario. In the proceedings that followed, the Receiver sold the property for approximately $3 million for the benefit of the investors.

A final example of Smith’s misappropriations once again involves Crystal Wealth’s Mortgage Fund as a pass-through. An associate and investment advisor to Crystal Wealth, Scott Whale (“Whale”), likely demanded that Smith purchase his units that he either held for himself and/or his investors. Smith used $2 million from the Mortgage Fund to pay a supposed energy company. However, the company immediately forwarded $1.75 million to Smith’s holding company to fund the $1.58 million share purchase agreement with Whale one day later. Smith’s misappropriations would be repeated throughout the fraud, often using associated companies and non-related Funds as pass-throughs.

Material Conflicts of Interest
Notwithstanding the illegalities involving the Mortgage Fund and the Media Fund thus far enumerated, Smith failed to disclose several conflicts associated with the film loans originating from Media House. From August 2014 through February 2015, Smith received sizable sums in connection with film loans made by the Media Fund. Besides a 2% management fee Crystal Wealth received on all assets under management, Smith skimmed from a 10% loan facilitation fee paid to Media House for the loans, revealed in testimony. From 2014 to 2015, the proceeds from these fees totaled nearly $623,000. Interestingly, these funds were almost evenly split with Whale. In just seven months, Smith walked away with $323,000 through this particular fee scheme.

As a registered investment advisor, Smith additionally breached a series of duties to act fairly and in good faith with investors and expressed fiduciary obligations related to the Funds under management. Throughout the OSC’s investigation, Smith misled interviewers and failed to disclose facts that would have helped the investigators recover investor funds. Despite specific directions to cease investor communications, he contacted the investors to discredit the investigation by the OSC.

Misleading Inter-fund Transactions
Smith concocted a succession of inter-fund “investments” to simulate financial momentum and boost the valuations of various Funds. These movements falsely created the impression of liquidity and were used to meet investor redemptions and periodic distributions.

By far, the largest beneficiary of these inter-fund purchases was the Media Fund, which received over $11
million of its $32 million in total assets under management from other Crystal Wealth Funds. The ACM Income Fund was the most prolific source of these transfers, which had a valuation of $10.8 million, of which $6.6 million was held in units of the Media Fund. Since the valuation of the Media Fund was “grossly overstatement,” the other Funds that held its units were thereby highly impaired, which led to “significant monetary losses.”

**Ponzi Scheme Payouts**

Not only did Smith transfer considerable sums between various Funds, but he also paid out consistent distributions to investors, although the investments were not generating any income. Likewise, he allowed investor redemptions of Fund units, both of which were supported through new investor purchases and inter-fund transfers. Without consistent income, these payments were nothing more than Ponzi scheme payments designed to create the impression of liquidity and financial health. This pattern was exemplified by investor payouts from the Media Fund that was “earning little to no income” on the loans, and therefore, it didn’t have the funds to satisfy investor distributions or redemptions. As a consequence, inter-fund transfers and capital from new investors were funding these fraudulent payouts.

**PART III: A SERIES OF DISASTROUS INVESTMENTS**

While the previous section outlined various instances of misappropriations and inter-fund transactions, what follows is a profile of several troubled investments, including factoring contacts, gold loans, and participation agreements related to concussion injury litigation on behalf of NFL players and families.

When halted, Crystal Wealth claimed that its 15 Funds had a valuation north of $193 million. However, as previously noted, the Receiver had concerns early on about the collectability of over $116 million. It will become apparent below why the Receiver was worried about collecting.

**Worthless Merchant Factoring Contracts**

Factoring agreements are common among merchants where there is a delay in settling invoices. For instance, they are prevalent among healthcare providers who want to monetize insurance receivables, which can take several months to settle. Funders will make advances to the merchant against the receivables and are either paid a fee or keep the difference between the advance and the receivables when received.

Crystal Wealth contracted with Frontline Factoring (“Frontline”) to source and administer its portfolio of merchant factoring contracts. Through this arrangement, Crystal Wealth purchased invoices through Frontline with seven merchants in two of its Funds. At the time of the Receiver’s Second Report, the outstanding principal balance was just over $26 million; after accumulated interest, these contracts totaled $30.6 million.

Astonishingly, these factoring invoices were in default and outstanding for 405 days on average when the Receiver was appointed. Nearly 82% or $21.6 million of the principal balances were more than one year past due, and $16 million was more than 500 days outstanding. The Receiver’s conclusion early in the investigation pointed to the unlikelihood that these invoices would ever be paid since several merchants were outside North America. Furthermore, because the Funds were unsecured creditors, non-recovery was all but a foregone conclusion. The top two merchants accounted for 83% of the $30.6 million in outstanding invoices.

In fact, the largest recipient of factoring capital, Dome Mountain (“Dome”), wasn’t even a factoring arrangement but a bridge loan to finance the drilling operations of a mine in British Columbia. Since Dome was unable to secure financing that it had contemplated under the terms of the deal when the
bridge loan was made, the “questionable invoice” remains unpaid.\textsuperscript{27} The Receiver has been unable to ascertain how Dome spent the $13.8 million it received from the two Funds managed by Crystal Wealth.\textsuperscript{28} The attorneys for the Receiver sent a demand letter to Dome in April 2018, putting them on notice that they planned to enforce the security, which with interest had climbed to $19.1 million.\textsuperscript{29}

\textit{Only Fool’s Gold}

One of the more predictable investments is purchasing physical gold or contracts to deliver gold bullion at specified dates. Unfortunately for the investors, the gold certificates for the delivery of 5,500 ounces of gold purchased by three Crystal Wealth Funds were worthless. Three Funds made loans to four gold sellers totaling more than $9 million to be repaid in gold or cash upon maturity. However, since each seller was in “poor financial health,” they were unable to repay the loans. More troubling was the almost complete lack of documentation or evidence about these loans. Similarly, since the Funds were unsecured creditors, the Receiver’s enforcement actions are limited.\textsuperscript{30}

A disturbing development that the OSC uncovered in its examination was a whopping commission paid on a single gold loan. Within four days of first learning about a possible opportunity to invest in a gold seller, Smith directed a Fund to advance the first $2 million of a $4 million placement, of which $1 million was immediately paid as a commission to one individual.\textsuperscript{31} Not too bad for a week of work sourcing a worthless gold contract.

\textit{NFL Concussion Litigation}

Although a relatively minor investment, below is a brief overview of Crystal Wealth’s participation agreements relating to a settlement of NFL concussion injury litigation.

In 2013, the NFL agreed to pay USD$765 million to settle litigation on behalf of players and families to help pay the medical expenses of former and possibly future players suffering from neurological conditions.\textsuperscript{32} The settlement became effective in 2017.

The settlement and subsequent orders made in the class action by Judge Brody in the United States District Court for the Eastern District of Pennsylvania and the resulting appeal in the Third Circuit deserve dedicated analysis by a sports attorney, perhaps in the pages of this journal.

However, as it relates to the matter at hand, in March 2016, Crystal Wealth’s Medical Fund (“Medical Fund”) entered an agreement to advance investor capital to a company that arranged several funding agreements with NFL players. When the Receiver was appointed, the stated value of the Medical Fund’s advances totaled USD$4.3 million. As usual, these arrangements were outside the scope of the investment memorandum for the Medical Fund presented to investors and regulators. The Receiver believed the failure to disclose the nature of these investments, which comprised 75% of the Medical Fund’s NAV, was a “gross misrepresentation.”\textsuperscript{33}

In 2017, the company that acted as a middleman in these arrangements notified the Receiver that they had been served with litigation for bad practices for charging egregious fees on the player’s claims.\textsuperscript{34} An order issued by Judge Brody on December 7, 2017, relating to these complaints, as referenced in the Receiver’s Fourth Report, stated that “…an agreement that assigned or attempted to assign any monetary claims, that agreement is void, invalid and of no force or effect. Class Members receiving awards are, by definition, cognitively impaired” and that “under the principle of rescission, Class Members should return to the Third-Party Funder the amount already paid to them.”\textsuperscript{35}

As of May 31, 2018, Crystal Wealth’s participation agreements had a stated value of nearly USD$3.6 million.
million, which consisted of USD$2 million in direct advances. The remaining USD$1.6 million in indirect advances and fees are seemingly exempt from repayment based on Judge Brody’s December 7, 2017 order. Notably, several decisions made by Judge Brody after the settlement was finalized that remained under her jurisdiction, including those referenced above, “went too far in voiding the cash advance agreements in their entirety,” according to the United States Court of Appeals for the Third Circuit.36

The selection of ruinous investments highlighted above pales in comparison to the injudiciousness exhibited by Smith in financing the film loans involving Media House.

PART IV: FEATURE PRESENTATION

As referenced throughout this article, the Media Fund was the single-largest Fund managed by Crystal Wealth and was the top recipient of inter-fund transfers. When the OSC started investigating Crystal Wealth, the company had sold over $32 million worth of Media Fund units to investors; over one-third of these were unwittingly purchased by investors through other Crystal Wealth Funds. The NAV of the Media Fund, at its high point, exceeded $53 million but was, in fact, worth far less. Because of the inter-fund transactions, the Media Fund’s valuation was paramount in justifying the value of several other Crystal Wealth Funds. Therefore, since the Media Fund’s value was materially inflated, several other Funds were likewise negatively impacted.

Media House’s Outsized Role

Media House, i.e., Media House Capital (Canada) Corp., is intertwined with several related entities under the directing mind of Aaron Gilbert (“Gilbert”), who is also the director of Bron Studios Inc., Bron Animation Inc., Bron Capital Partners Corp., and Bron Releasing Inc. These entities and others were referenced in varying degrees in the investigation by the OSC and the Receiver and in the resulting buyout addressed below. Gilbert’s umbrella of companies produces and finances feature films, animations, and television series content. As a going concern, Media House was seemingly wound down following the implosion of Crystal Wealth. Apparently, Gilbert now operates the bulk of his business under the Bron Studios banner.

Throughout the purchasing of film loans by the Media Fund, Gilbert’s Media House specialized in structuring, sourcing, and administering film and television investments from its headquarters in Vancouver, British Columbia. Starting in 2011, Media House and the Media Fund entered into a Master Assignment Agreement and Loan Administration Agreement whereby the latter would purchase loans sourced by the former.37 As is addressed below, this arrangement was fraught with material conflicts of interest.

Explaining Media House’s role, the Media Fund’s Operating Memorandum asserted that “Crystal Wealth: (i) relies on the expertise of Media House (Canada) Capital Corp. to source potential film and television production loans for investment by the [Media] Fund and to monitor those investments on an ongoing basis; and (ii) purchases the majority of loans for the Media Fund from MHC [Media House].”38

Loans in Name Only

According to the investment memorandum, the purpose of the Media Fund was to “… generate a high level of interest income with minimal volatility and low correlation to most traditional asset classes by investing in debt obligations of motion pictures and series television productions.”39 Furthermore, the investment memorandum stated that: “The Media Fund will not be in the business of making loans, but rather purchasing already existing securities such as notes and other debt obligations.”40 As will become apparent below, Crystal Wealth’s claim that it was not making loans but instead purchasing existing loans was misleading and inaccurate. First, though, we’ll briefly consider the nature of the purported loans.
In theory, there were two types of loans that the Media Fund was acquiring from Media House ("Gap Loans") and ("Tax Credit Loans"). While the definition, structure, and collateral of Gap Loans vary widely among financiers and bankers, we'll consider the definition from the Receiver after its expert consultation with Quiver Capital ("Quiver"), "whereby the security of the loan is the unsold [distribution] rights" and thus “[t]he Gap Loan is the riskiest type of financing for the lender as the Gap Loan is issued solely on estimated sales, which, often times, is far less than can be generated by the production.”

Tax Credit Loans are typically more straightforward and are used to collateralize the anticipated tax incentives offered by governments for conducting principal photography and/or post-production services in specified jurisdictions.

Regarding the procedure for acquiring film loans, in testimony conducted by the OSC with Media House’s VP of Finance Steven Thibault ("Thibault"), he stated that Media House “doesn’t loan the money to the production companies making the films,” but rather “creates the paperwork but it is a simultaneous transfer to the Media Fund, who holds the loans.” This structure was further confirmed in Gilbert’s testimony with the OSC as a “simultaneous transaction.” The reason for this maneuver, according to Gilbert, was because the Media Fund “couldn’t make a direct loan to a production” and “could only buy an asset.” One can only imagine the lax underwriting standards at play under such an arrangement, which inevitably resulted in a portfolio of largely defaulted and illiquid loans.

**The Media Fund’s Deepening Money Pit**

Through January 2015, the Media Fund acquired 24 loans from Media House. Although the loans were severely impaired and, in some cases, seemingly non-existent, the NAV of the Media Fund continued to climb from the loans’ par value of $32 million up to $53 million as the interest on the defaulting loans accumulated.

In some cases, these loans were created out of thin air for future films and immediately sold to the Media Fund. Typically, Gap Loans and Tax Credit Loans are only funded once all the production financing documentation has officially closed after a slew of contracts and security agreements have been drafted and redrafted by multiple attorneys.

Not all the Media Fund’s films would finish or even start. In the Receiver’s Second Report, they expressed concerns about the loan portfolio by stating, “it was apparent that a significant number of the films underlying the Media Loans appear to be experiencing significant issues and/or delays.”

According to an extensive report by Quiver on behalf of the Receiver, the Media Fund had acquired 17 Gap Loans. At the time of Quiver’s report in late-2017, the outstanding principal balance was over $19.2 million, with $12.2 million in accumulated interest; the total outstanding exceeded $31.5 million. Unsurprisingly, based on the shelf life of the films in question, Quiver estimated that the Gap Loans would only collect $1.9 million over the next six to seven years, and that “making any attempt to compare this to the $31,505,917 on the CWMF [Crystal Wealth Media Fund] books is irrelevant.”

According to the same report, Quiver indicated that the current book value of the Tax Credit Loans, including principal and interest, only amounted to $9.7 million. This valuation would increase if two unfinished films were completed, which required an additional $19.4 million in production funding. Upon completion, Quiver estimated the value of Tax Credit Loans would likely increase to $17.5 million, still well below the book value and crucially contingent on nearly $20 million in additional funds.

**Crystal Wealth and Media House Coordinated Audits**
There appears to be clear evidence that Gilbert, Thibault, and Smith worked together to mislead Crystal Wealth’s auditor BDO by coordinating their responses to inquiries about the financial position of the film loans. “Smith advised BDO that there was no reason to doubt MHC’s [Media House’s] objectivity” regarding the financials that they were providing to BDO, even though they were involved on all sides of these transactions and materially benefited.47 According to the Tillie Affidavit, “emails between Smith and MHC [Media House] appear to show that they coordinated responses to BDO inquires for the 2013, 2014, and 2015 Media Fund audits.”48

An example of this coordination is found in the Tillie Affidavit, where Smith replied to Thibault via email with, “I will play with the spreadsheet [of the film loans] and send it back to you to send directly to the auditors [BDO] so we are using the same one and so they get it directly from you.”49 Furthermore, Thibault responded to Smith regarding the 2014 audit by saying, “could you please email the report to me to do a quick review prior to sending to Selena [BDO auditor] just so I can catch anything that might jump out at her?”50

Unfortunately for the investors, “BDO relied only on a confirmation from Thibault by e-mail dated April 2, 2016, regarding the outstanding principal and interest of the loans, rather than confirmations from the film production companies, i.e., the underlying borrowers.”51 The result of this improper reliance yielded extreme discrepancies between forecasted and actual revenue generated by the films. “BDO tested the accuracy of forecasted 2015 Film Loan receipts of $31.8 million at December 31, 2014 by comparing them to the actual 2015 Film Loan receipts of just $6.6 million, and found that actual receipts were $25.2 million less than originally forecasted.”52

Possibly facing pressure from BDO and investors, Smith emailed Gilbert to say, “I’m not going to write the fund down by another $2 million in addition to the $2.2 million I already have accrued as a loan loss provision, but as you can see, we are going to have to provide some significant support documents for the auditors [BDO].”53

The back-and-forth between Smith, Gilbert, and Thibault about these audits, which were ultimately delayed and therefore not delivered on time to the OSC as required under the regulatory regime, is likely why the Crystal Wealth investigation was initiated. The many failures of BDO relating to these audits over several years ultimately led to $4 million in sanctions by the OSC and a $32.5 million settlement with the Receiver.

**Bad Actors in Every Role**

Contrary to Media House administered all the film loans held in the Media Fund. Gilbert was also listed as a producer or executive producer on 19 of the 25 films that were eventually funded.54 It’s presumed that Gilbert and Media House received sizable producer fees and production service fees on each film’s budget in addition to a 10% loan facilitation fee paid by the Media Fund. In many instances, Media House was intimately involved in developing each film that was funded. According to Thibault, for arranging the loans, Media House “used to earn 10% fees on the early projects sold to the Media Fund... the amounts changed to 7% in fees and 3% was returned to Crystal Wealth.” According to the Media Fund’s offering memorandum, the 10% fee to Media House was disclosed, but there was no disclosure of the 3% kickback to Crystal Wealth.55

In essence, Media House was a producer on most of the films, the originator, borrower, and immediate seller of the production loans, as well as the loan administrator, and trusted by BDO as an independent source for the loan valuations. Media House was far and away the biggest beneficiary of investor proceeds throughout the fraud.
As highlighted in Part II, Media House was instrumental in Smith’s misappropriations, whereby millions in investor funds flowed from the Media Fund through Media House and back to Smith’s personal and holding company accounts to fund personal expenditures. This process was summarized in the Ho Affidavit as such, “...the banking document revealed that on two films, over $7.2 million was transferred from the Media Fund to MHC [Media House]. Simultaneously, $2.3 million was transferred from MHC [Media House] to Smith’s personal holding company CLJ Everest, while $3.6 million was transferred from MHC [Media House] to Spectrum Canada Mortgage Services, a partner of Smith’s Mortgage Fund.”

Gilbert was by no means stingy with the millions flowing from Crystal Wealth investors through Media House. In his testimony with the OSC, “Gilbert said that he loaned Clayton [Smith] a few million dollars when Clayton had a 30-45 day shortfall to cover. Gilbert is not charging Smith interest and has not been repaid. Gilbert did not know if the money went directly to Smith.” Thibault confirmed these seemingly personal loans in his testimony by stating “a loan of approximately $3 million to Smith made by MHC [Media House] and recorded on its books... and was made in two payments to Smith’s [holding] company.”

Interestingly, Gilbert’s “personal loans” to Smith would eventually lead to the largest third-party creditor claim submitted to the Receiver. After the OSC took action against Crystal Wealth, the Receiver sought proof of claims from creditors. In a bold move given his involvement, Gilbert submitted over $12.2 million worth of creditor claims to the Receiver. Unfortunately for Gilbert, this windfall would never materialize. To likely remove the spotlight from Media House’s involvement with Crystal Wealth, and perhaps acting under express or implied pressure from the OSC and/or the Receiver, Gilbert paid over $14.3 million to the Receiver to acquire the seriously impaired film loan portfolio that Media House had initially sold to the Media Fund. As noted earlier, the book value of the Gap Loans and Tax Credit Loans amounted to around $11.6 million. Also, as part of the buyout, Media House assigned its $12.2 million in creditor claims to the Receiver for just $2.

Clues into Gilbert’s sudden change of heart are found throughout his compelled testimony but summarized as “[t]he Receiver required that the Assignment Agreement be entered into as a result of (i) concerns raised in the Commission Affidavits (as defined in the First Report) about funds that were traced from the Media Fund to either MHC [Media House] or BAI [Bron Animation], and which ultimately appeared to be traced to Smith or his holding company, CLJ Everest.”

After Media House’s $14.3 million buyout of the Media Fund and an additional $6.8 million the Receiver was able to collect under the Court’s authority, investors in the Media Fund recouped approximately $23.3 million, against its $53 million NAV. Without Media House’s expedient buyout of the Media Fund, the investors would have received less than a quarter of their original contribution.

A complete list of the 37 loans in 27 films that form the consideration of the buyout is located in Schedule C of the Asset Purchase Agreement.

Gilbert’s Meteoric Rise in Hollywood

Around the time that Crystal Wealth was imploding, Gilbert’s Bron Studios was catapulting into the highest echelons of Hollywood finance. Gilbert is behind some of the biggest Hollywood films of the last few years, including JOKER, which delivered Joaquin Phoenix his first best actor Academy Award. Correspondingly, in 2019, Bron Studios announced separate $100 million funding deals with Warner Bros.
and MGM.\textsuperscript{67,68}

According to an interview in The Hollywood Reporter during the Cannes Film Festival in 2019 about Gilbert’s current production and finance company, “Canada’s Bron Studios has emerged as the 800-pound gorilla on the indie finance scene. Bron plans to invest at least $750 million in institutional investor cash, most of it from Canadian pension funds, in film and TV in the next 12 to 14 months.”\textsuperscript{69} These grandiose funding plans could spell disaster for investors if past performance is any indication.

According to the Settlement Agreement between BDO and the Receiver, detailed below, Media House was released from an ongoing action brought by the Receiver. However, Gilbert might not be out of the woods yet for his involvement with Crystal Wealth. In Justice Perell’s Reason for Decision in the BDO class action held in the Ontario Superior Court of Justice, addressed below, the lead plaintiff has seemingly launched a lawsuit against Gilbert and Media House for “deceits and forgeries that deceived BDO.”\textsuperscript{70} The status of this action is unknown.

**PART V: BDO IS IMPLICATED IN THE FRAUD**

Excluding Smith, and to a lesser extent, Housego, who raised funds from investors in British Columbia, dozens of parties who aided and perpetuated the Crystal Wealth fraud have avoided criminal prosecution, monetary sanctions from the OSC, or outside litigation.

Notwithstanding these lucky ducks, BDO, as Crystal Wealth’s auditor, has faced hefty financial consequences. Since the Court-appointed Receiver started its investigation in April 2017, BDO has settled with the OSC and the Receiver in separate actions totaling just over $36.5 million. Recently, however, the Supreme Court of Canada finally put to rest a $175 million class action from Crystal Wealth’s investors under lead plaintiff Anthony Whitehouse (“Whitehouse”).

**BDO Settles with the OSC for Non-Compliance**

Admissions made by BDO in its Settlement Agreement with the OSC in January 2020 were narrow in scope. The agreement does “not address the accuracy of the Funds’ financial statements” and “does not involve allegations of breaches of accounting standards” but is rather limited to the preparation of audit reports that were not in “compliance with auditing standards” and for “conduct contrary to the public interest.”\textsuperscript{71} Specifically, BDO’s audits “did not comply with GAAS [Generally Accepted Accounting Standards] due to a lack of sufficient appropriate audit evidence, professional skepticism, and appointing an EQCR [Engagement Quality Control Reviewer].”\textsuperscript{72} The settlement only addresses BDO’s failings associated with the financial statements for the Mortgage Fund and the Media Fund.

Pertaining to the Media Fund, BDO “did not obtain sufficient appropriate evidence of the existence of the [loans]” and “did not obtain assurance about the controls relevant to the audit evidence provided by MHC [Media House].”\textsuperscript{73} Specifically, the OSC identified three deficiencies in the loan documentation. First, there were no agreements between the underlying borrower, i.e., the production company, and the Media Fund. Furthermore, the documents “did not provide sufficient evidence of the borrowers’ obligation to the [Media] Fund.” Second, BDO never obtained complete documentation proving the existence of the loans. Third, given these deficiencies, BDO did not take steps to remedy these discrepancies and instead “relied solely on information from Smith, rather than independent evidence.”\textsuperscript{74}

Beyond evidentiary deficiencies, BDO did not adequately address the valuations of the loans made by the Media Fund. Since the sales forecasts for the film distribution rights financed by the Media Fund were paramount in valuing the loans and determining the probability of collections, relying on Media House and Smith did not comply with GAAS.\textsuperscript{75}
Highlighting the auditor’s lax due diligence, in its 2014 audit, BDO did not conduct a retrospective review of Smith’s 2013 valuations to determine if there was an “increased risk of material misstatement due to fraud or error.” Although BDO conducted a retrospective review of the 2014 audit when preparing its 2015 audit, this review proved problematic because it relied on the Media Fund’s accounting provided by Smith and “did not corroborate the amounts collected with evidence such as bank records.” As a result of its careless standards, BDO’s review of the 2014 audit in early 2016 revealed that its forecasted receipts for the film loans “fell short by almost 80% or $25 million.” These valuations conducted by Smith and BDO relied solely on Media House’s sales forecasts, which were incompetent at best, but likely more sinister, as evidenced by this massive discrepancy in collections.

For these instances of non-compliance with auditing standards, BDO agreed to pay $3.5 million in an administrative penalty and costs of $500,000, of which $2.5 million was allocated to the Receiver for the benefit of the investors.

**BDO Settles with the Receiver for Negligence**

The Receiver alleged that BDO breached the requisite duty of care that it owed to the investors of Crystal Wealth by “its negligent performance of its audit services, negligent misrepresentations contained in its audit opinions, breach of contract, and/or gross negligence,” and sought damages for $160 million, including $1 million in punitive damages. In its response to the allegations, BDO claims they are unfairly being held out as an “insurer” for the losses and were, in fact, a victim of Smith’s deceits, including by “forgery and outright lies, that were designed to mislead,” and which did indeed mislead the OSC, the British Columbia Securities Commission, as well as BDO.

Notwithstanding its statement of defense, BDO entered into a settlement agreement with the Receiver in January 2020. Under the terms of the agreement, BDO agreed to pay $32.5 million for the benefit of the investors for “a full and final release of all claims that “were or could have been asserted in the Receiver’s Action against BDO.”

Curiously and shocking to those involved in the matter, the settlement agreement releases Media House, Gilbert, Thibault, and other associated companies “of all claims that were or could have been asserted in the Receiver Action against Media House.” However, at the time of the settlement, there was no public evidence of an action against Media House by the Receiver. This generous release of claims by the Receiver is seemingly a result of Gilbert’s likely compelled buyout of the Media Fund’s loan portfolio for $14.3 million. It’s worth noting that there are significant redactions in the settlement agreement releasing BDO and Media House.

**Investors File Class Action Against BDO**

In July 2017, shortly after the Receiver initiated its investigation, Whitehouse, as lead plaintiff, filed a class action against BDO for breaching its duties to the investors by not conducting the audits in accordance with GAAS and negligently performing its duties. Whitehouse sought relief in damages for negligence for $150 million and punitive damages of $25 million.

A class certification hearing heard by Justice Perell in the Superior Court of Canada in December 2019 dismissed the certification motion of the class for lack of a cause of action. The dismissal follows precedent in three leading cases that reject claims that auditors owe a duty of care to investors in making investment decisions, including in the 2017 Supreme Court of Canada decision, Deloitte & Touche v. Livent Inc.

In dismissing the certification, the Perell’s Court held that “while BDO has potential contractual liability...
to Crystal Wealth for negligent auditing, it does not have a proximate duty of care” to the class of
investors for a statutory audit.85

On appeal in the Ontario Superior Court of Justice Divisional Court held on February 1, 2021, and
released on April 20, 2021, the court again dashed the hopes of Crystal Wealth’s investors. Echoing the
December 2019 decision in the lower court, the Divisional Court held that “[w]ithout a pleading basis
for BDO having undertaken to the unitholders to provide audit reports for their personal investment
decisions, there can be no basis for the necessary proximate relationship.”86 Furthermore, as found before
the motion judge, “without a pleading basis for sufficient proximity in this case, it was plain and obvious
that BDO, in performing statutory audits, did not owe the Plaintiffs a duty of care with respect to their
investment decisions.87

Whitehouse’s leave to appeal the Divisional Court’s decision in the Court of Appeal for Ontario was
denied on October 4, 2021. A final leave for appeal in the Supreme Court of Canada under related
plaintiffs Carrie and Jason Couch was denied on April 14, 2022.

Settled Law Governing Auditor Liability
The class action faced a near-impossible hurdle of settled jurisprudence on auditor liability. There were
distinguishing factors that could have upheld current precedent while protecting investor rights in the
immediate case, particularly in a matter of such blatant fraud founded upon highly deficient audits that
targeted unsophisticated investors.

It seems reasonably foreseeable that multi-year audits addressed to ‘Unitholders’ of each corresponding
Fund would be used to make personal investment decisions and thus create the necessary proximity.
However, the rulings signal further erosion of investor rights by concluding that Ontario’s investing public
is not owed a duty of care for statutory audits of registered securities and mutual funds.

CONCLUSION
Many are left wondering if Smith was one of the world’s most incompetent investment managers, taken
advantage of by those around him in nearly every situation, or pocketed many more millions than those
misappropriated for personal expenses, including an estate and yoga studio. The OSC was seemingly
convinced when it settled with Smith that he didn’t have any other disgorgable assets to repay investors.
As previously noted, the $300,000 that Smith owes the OSC in monetary sanctions and costs remains
unpaid.

Perhaps most peculiar is how Smith raised so much money with negligible experience in deal origination
or fund management. After reviewing the compelled testimony of Smith and his associates, it’s evident that
a network of finders and portfolio managers were pouring gasoline on Crystal Wealth’s ill-conceived and
risky investments.

The Receiver continues to move forward with litigation against several entities that received capital
from Crystal Wealth. However, since most remaining interests are unsecured, significant sums will likely
remain unrecovered. Yet, to date, the investors have miraculously received over $103 million, which is
an extraordinary amount compared to their original contributions. In the end, it’s conceivable that the
investors could recoup their entire outlay through the Receiver’s considerable efforts, which would be an
astonishing feat for a private placement fraud of this variety.

There are several ongoing frauds involving portfolios of film investments currently operating in Canada
and the United States on the verge of tumbling down. The only questions are which one will be next and

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when.

Endnotes

1. Unless otherwise noted, all dollar amounts are in Canadian dollars


5. Id. at para. 52

6. Id. at para. 50


10. Id. para. 16(b)


15. First Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, June 22, 2017, Appendix 5, David Adler Affidavit, sworn April 24, 2017, para. 18, [Link in Endnote 3]

16. In the matter of Clayton Smith and the Ontario Securities Commission, Settlement Agreement, para. 28(a), [Link in Endnote 12]

17. Id. para 29

18. Id. para. 32-33

19. Id. para. 35-37


21. Id. para. 221

22. Id. para. 32(g)

23. Id. para. 222

24. Id. para. 62-66

25. Id. para. 68
26. Id. para. 78
27. Id. para. 82
28. Id. para. 104
29. Fourth Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, July 30, 2018, Appendix 45, [Link in Endnote 9]
31. Fourth Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, July 30, 2018, para. 204-205, [Link in Endnote 27]
34. Id. para. 381-384
35. Fourth Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, July 30, 2018, para. 312, [Link in Endnote 27]
38. First Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, June 22, 2017, Appendix 5, Michael Ho Affidavit, sworn April 17, 2017, para. 4, [Link in Endnote 3]
40. Id. para. 89
41. Second Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, November 24, 2017, para. 221-212, [Link in Endnote 9]
42. First Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, June 22, 2017, Appendix 5, Michael Ho Supplementary Affidavit, sworn April 24, 2017, para. 29, [Link in Endnote 3]
43. First Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, June 22, 2017, Appendix 5, Marcel Tillie Affidavit, sworn April 17, 2017, para. 32, [Link in Footnote 3]
44. Second Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, November 24, 2017, para. 214, [Link in Endnote 9]
45. Re: Crystal Wealth Media Fund, Quiver Capital Expert Report, November 22, 2017, pages 3-4, [Link in Footnote 3]
46. Id. pages 7-8
47. Factum of the Applicant to the Court submitted by the Ontario Securities Commission, April 25, 2017, para. 44, [Link in Footnote 3]
49. Id. para. 49
50. Id. para. 50
51. Id. para. 42
52. Id. para. 43
53. Id. para. 51
54. Id. para. 37
55. First Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, June 22, 2017,
Appendix 5, Michael Ho Supplementary Affidavit, sworn April 24, 2017, para. 31-32, [Link in Endnote 3]

56. In the matter of Clayton Smith and the Ontario Securities Commission, Settlement Agreement, para. 28-30, [Link in Endnote 12]

57. First Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, June 22, 2017, Appendix 5, Michael Ho Affidavit, sworn April 17, 2017, para. 46, [Link in Endnote 3]

58. First Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, June 22, 2017, Appendix 5, Michael Ho Supplementary Affidavit, sworn April 24, 2017, para. 37, [Link in Endnote 3]

59. Id. para. 38

60. Id. para. 39


64. Supplement to the Second Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, February 8, 2018, Tab B, para. 14, [Link in Endnote 59]

65. Fourth Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, July 30, 2018, para. 60, [Link in Footnote 27]


72. Id. para. 29

73. Id. para. 33-34

74. Id. para. 35-37

75. Id. para. 40-41

76. Id. para. 42-43

77. Id. para. 45-48

78. Id. para. 84-85


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80. Fifth Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, May 19, 2020, Appendix 19, BDO Canada LLP Statement of Defence in the Receiver’s Action, September 13, 2019, para. 4-5, [Link in Endnote 77]

81. Fifth Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, May 19, 2020, Appendix 21, Redacted Settlement Agreement between BDO Canada LLP and Grant Thornton Limited, January 14, 2020, para. 3, [Link in Endnote 77]

82. Fifth Report to the Court submitted by Grand Thornton Limited in its capacity as Receiver, May 19, 2020, para. 36, [Link in Endnote 77]

83. Perell, J. Reasons for Decision in Whitehouse v BDO Canada LLP, 2020 ONSC 144, para. 3, [Link in Endnote 68]

84. Lavender v. Miller Bernstein LLP, 2018 ONCA 729, Hercules Managements Ltd. v. Ernst & Young, [1997] 2 SCR 165, and Deloitte & Touche v. Livent Inc. (Receiver of), 2017 SCC 63

85. Perell, J. Reasons for Decision in Whitehouse v BDO Canada LLP, 2020 ONSC 144, para. 4, [Link in Endnote 68]


87. Id. para. 26
2022 ELI Writing Competition Winning Essay: 
Protecting the Artist: Licensing in an AI-Generated Music Market

By Sona Sulakian

I. INTRODUCTION
While music is created by standing on the shoulders of giants, that giant needs to be recognized and appropriately compensated for their work. Many legal experts debate the distinction between inspiration and imitation, and that line continues to blur as artificial intelligence (“AI”) undertakes a greater role in the music composition process. Companies have already begun to generate music, even vocals, by training AI algorithms on a dataset of musical examples.

In fact, the past few decades have witnessed algorithms become an inescapable phenomenon in the music industry, from the rhythmic patterns of guitar pedals to autotune. Even Snoop Dogg’s latest album title pays homage to the digital revolution. But this flashy, futurist exterior belies a brewing multitude of legal issues. For example, music streaming companies may begin to repurpose their data about consumer trends to create their own music, a royalty-free product to replace the traditional artist.

Since AI studies and learns from pre-existing samples, AI-generated music (“AI music”) holds an equivocal spot along copyright law’s idea-expression spectrum. The scène à faire doctrine extends this idea-expression principle and bars copyright protection for necessary or customary elements of a work within a genre. For example, an artist may copyright a particular song in the blues style but not the blues style or genre itself; that boundary had more distinction prior to the extensive use of AI technology. Now, the proliferation of digital tools that help compose music, and even generate music, challenges the original notion of musical composition as a fundamentally artistic endeavor. These new technological tools expose and exploit musical patterns and styles with an eye toward commercial profit. As a result, songs may become statistical and rule-based results that laterally shift the art of musical composition toward the “idea” side of the idea-expression divide.

A variant of these new tools allows users to train AI algorithms on a dataset of songs to generate new music in a similar style. Other forms of AI-generated works include deepfakes, which use sophisticated AI to create super-realistic videos or audio that can clone and manipulate a musician’s voice. Yet both forms of AI-based algorithms are inherently derivative, as they need some sort of training dataset to underpin new creations; an increasingly algorithm-centric world thereby drives human creativity towards innovating new techniques and styles, in addition to a particular song or musical expression of that style. In fact, recent case law suggests courts’ rising amenability to this concept given the recognition of new intellectual property rights that may be significant, even crucial, in an AI-dominated music landscape.

This paper argues that the law should recognize rights in a musical style and, by extension, in a particular voice to conserve creative incentives. Part II argues that copyrights holders deserve compensation from AI-generated music trained on their copyrighted works, especially since the fair use defense does not cover non-parodic derivatives created for commercial gain. Part III explores trends in case law towards recognizing rights in one’s distinctive style and voice. Part IV explains the technical difficulty of reverse-
engineering a neural network and the evidentiary challenges in proving that a copyrighted work was used at some intermediary step to create new AI music. These considerations require that the music industry generally share the right; a blanket license would allow AI and other technological tools to spur innovation in the musical industry while providing an income source to current and legacy musicians who serve as the backbone of the change. Finally, Part V recognizes AI’s growing prevalence in the music industry and its eventual “composing” of hit songs, which together mean that licensing music for algorithmic use may become a recognized derivative right for songwriters and composers.

II. INSULATING AI MUSIC FROM THE FAIR USE DOCTRINE

Generally, even a small portion of work can constitute infringement, given copyright law’s historical rejection of the de minimis defense. But because music continually builds upon itself, copyright law incorporates certain limits like fair use defense. The fair use doctrine limits the grant of exclusive rights, serving as a “safety valve” to otherwise innovation-averse monopolies. Ordinarily, commercial use does not disqualify from fair use, and a significant transformative use can offset the commercial purpose of a work to support fair use. An otherwise infringing work may steer towards fair use if the work serves some form of commentary or criticism, such as the parody in the landmark case Campbell v. Acuff-Rose Music. While parodies have a commercial purpose and provide a similar function as the original piece, their transformative nature and commentary qualify them as fair use. AI music also transforms the original work in some significant manner, but AI music does so without intent to comment or criticize, or make any reference, to the original work. Rather, AI music attempts to market off successful musical styles that previous authors have worked to commercialize and build public traction. AI music creators thereby free ride on the original artist’s efforts in a work that directly competes with the original work, which undoubtedly reduces the incentives that drive creative innovation.

Furthermore, an AI musical piece would compete as a direct substitute for the original composition (after all, there’s only one Billboard #1 spot). A new musical piece in a similar style may supersede and even divert profits from the original work. Campbell held that market harm excludes works that criticize or disparage the original, but this limited exclusion still leaves the market exposed for non-parodic derivatives of a work that should include licensing for AI training. While courts only consider non-speculative lost profits from lost sales and licensing revenues in derivative markets, AI-driven exemptions of fair use become more crucial with the proliferation of AI-generated music.

In some ways, AI music composition compares with previous cases involving technology that makes information more publicly accessible. In Perfect 10 v. Amazon, the court held that the “significantly transformative nature of Google’s [images] search engine, particularly in light of its public benefit, outweighs Google’s superseding and commercial uses of the thumbnail images . . . .” The public benefit of AI music manifests in new forms of creativity, increased innovation, and decreased barriers to entry to the music industry, especially for individuals from a disadvantaged socioeconomic background. Revenue from algorithm-generated music would outweigh this benefit by redirecting those profits to individuals and companies who leverage the creative works of the original artists. A simplified licensing model can retain public benefits for AI-creators to continue developing music through algorithms while appropriately attributing and compensating the original artists.

Moreover, while a search engine provides a “new use” for the original copyrighted works, AI music uses copyrighted works to generate competing works that serve the same entertainment function. As another example, in Authors Guild v. HathiTrust, the fair use doctrine immunized the digitization of books into a full-text search database, which the court described as “a quintessentially transformative use” and further justified because “the copying was not excessive[] and the full-text search function did not serve as a
substitute . . . .” However, unlike the libraries’ use in Authors Guild, AI music does not deliver a different function from the original work and may actually substitute for the original work. AI music must, by design, also involve a significant amount copying, though not literal and spread across multiple works.

The harms of blocking AI-equipped songwriters from using artists’ creative works may outweigh those artists’ financial losses, but excluding AI music from fair use protection would force AI companies to negotiate with artists and establish a fair market value for their works. A blanket licensing regime may provide a good medium to accomplish this feat until the market develops a more robust approach.

III. THE RISE OF RIGHTS IN A DISTINCTIVE STYLE

A. The Right to Claim Ownership over a Musical Style

The utilitarian view of copyright law shys from overly broad protections that can stifle creativity. Yet, recent case law follows a different trend. Ariana Grande recently settled a case in which Josh Stone, who performs as DOT, claimed that Ariana’s hit song “7 Rings” copied the “beat, hook, lyrics, and rhythmic structure” of his song. More notoriously, a Ninth Circuit decision extended copyright protection to a musical style.

The appeals court in Williams v. Gaye upheld the lower court ruling that Pharrell and Robin Thicke’s song “Blurred Lines” infringed on Marvin Gaye’s copyright in “Got To Give It Up” given the similarity in feel, although the two works were “not objectively similar” and “differ[ed] in melody, harmony, and rhythm.” Despite the pitch similarity in the “signature phrases,” Judge Nguyen dissents, “Three consecutive pitches is just the sort of common theme that will recur in many compositions.” Any music theory student can attest that Western music consists of a set number of recognized scales that harmonize in groups of three. The chord-based nature of Western music means a limited number of combinations will inevitably result in similar sounding songs. Accordingly, similar combinations of chords and scales form a genre, and to compose within that style, a blues songwriter must study other blues musicians, as an example.

The blurred line between inspiration and imitation further complicates with the addition of machine learning, which learns by example. While copyright law recognizes the independent creation defense to copyright infringement, music is not developed in a vacuum; musicians draw inspiration from a young age and often develop their musical styles at youth. Arguably, training an AI algorithm on a set of songs does not much differ from an impressionable teenager.

So what structural components of a musical piece should the law protect? To alleviate the ambiguity in determining the level of abstraction that courts should use to analyze a AI music, copyright infringement analysis should include some version of the abstraction-filtration-comparison test for non-literal copying that is tailored to music. This stipulation would help protect the unique structural aspects of a composition, while preserving for creative use the musical structures inherent to a genre. In Computer Associates Int’l v. Atlai, the Second Circuit held that copyright protection may extend to the non-literal elements of a software program without violating the idea-expression principle. An important distinction exists between writing in a musical style and copying distinct, creative elements of a copyrighted piece, which may include the choice of instruments, rhythmic structure, and other musical patterns mentioned by the Gaye heirs. The law should afford these musical “paraphrases” of creative ideas the same protection as would a paraphrase of an author’s ideas from a book. With consideration to this protection, a forensic musicologist may determine the required level of abstraction to analyze a creative musical element and, from there, winnow down a piece into the “golden nuggets” of copyright-protectable expression.

Some experts caution that recognition of an IP right in a musical style may lead to a proliferation of
lawsuits and the resultant chilling effect on innovation;\textsuperscript{32} still, the growing ease of imitation accentuates the need for stronger creative rights that provide artists with ownership over their distinctive style, often inseparable from their identity. These legal reinforcements will thereby promote continued innovation.

\textbf{B. The Right To Own One’s Voice or Vocal Style}

Just as consumers can often identify artists by their musical style, a person’s voice can constitute a very personal aspect of one’s identity. A moral argument may even advocate for a privacy right to autonomy over one’s voice as an extension of their body. Imitation of a vocal style may therefore appropriate one’s identity. Indeed, AI text-to-speech algorithms can analyze and replicate a person’s pattern of speech, including their intonation, accent, tone, and emphasis.\textsuperscript{33} While neither copyright, trademark, nor patent law generally protect voice, courts have recognized rights in a person’s voice when used for commercial gain, at least with respect to a distinctive, well-known voice.

A voice generally does not qualify as copyrightable subject matter because “[t]he sounds are not ‘fixed’.”\textsuperscript{34} In \textit{Midler v. Ford Motor Co.}, Bette Midler claimed rights in her own voice that Ford imitated in an advertisement. The court recognized her vocal rights under a right of publicity variation and noted that “[a] voice is as distinctive and personal as a face. The human voice is one of the most palpable ways identity is manifested.”\textsuperscript{35} The Ninth Circuit’s holding emphasized the distinctive nature of Midler’s voice, a sufficient indicator of her identity, and the imitation’s commercial nature.\textsuperscript{36} Similarly, in \textit{Waits v Frito-Lay Inc.}, the Ninth Circuit held that a radio commercial imitating Tom Waits’s raspy voice violated his right of publicity under California law and constituted false endorsement under federal law.\textsuperscript{37}

These cases illustrate how the law may protect artists from nonconsensual imitations of one’s voice for commercial purposes. But copyright law has its limitations, such as when AI artists transform a voice enough for fair use consideration, akin to a voice impersonator. The user’s intent for a voice, natural or digital, should govern the legal consequence, e.g. whether the impersonation serves as commentary or appropriates a vocal style for commercial profit.

\textbf{IV. A PRACTICAL PROPOSAL: DEVELOPING A BLANKET LICENSING SCHEME}

In the music industry, performance rights organizations (PROs) frequently issue blanket licenses for music that they represent to radio stations and public performance venues in exchange for a fee.\textsuperscript{38} This blanket license format presents a significant licensing opportunity for songwriters and composers in the AI music generation market. Many artists lack the financial means or technical expertise to bring lawsuits against new technologies that profit from their works. Given the legal challenges in proving that AI created music from copyrighted works and the technical difficulty of reverse-engineering a neural network, a blanket license would more simply allow artists to claim a portion of the benefits. Artists could register their music with a collective rights organization like Broadcast Music, Inc. The entity could then license their entire music catalog to AI companies for any variety of technological and innovative purposes.\textsuperscript{39}

A blanket license would also provide a public benefit through increased visibility into the evolution of music and improved access to copyrighted works for experimentation by young musicians. Just as artists are cautioned by their attorneys not to mention their “influences,” the current legal landscape incentivizes secrecy of the training dataset for any AI-generated song. A blanket licensing approach would allow and even encourage AI composers, or better called developers, to celebrate their influences and pay appropriate tribute. Furthermore, a blanket license would facilitate young musicians experimenting with new technologies by enabling them to pay a subscription fee and use copyrighted music for their new creations. Mimicking how Spotify and similar streaming platforms effectively suppressed the music pirating industry through their ease of use and a relatively small monthly fee,\textsuperscript{40} a PRO could make music more readily available to the public in a recognized, legal manner.
Some legal experts may consider a blanket license a form of compulsory license, given the alternative burden of negotiating individual music licenses for each piece or use. But a blanket licensing approach could create a pool of money to fund artists from diverse or underprivileged socioeconomic backgrounds. By collecting royalties on unregistered but copyrighted music, these collective rights organizations can use this funding to support public initiatives in a similar fashion to how the legal industry repurposes unclaimed interest on IOLTA accounts for charitable purposes.

V. A LEGISLATIVE PROPOSAL: EXTENDING DERIVATIVE RIGHTS TO AI-GENERATED WORKS

What if an artist would like to claim derivative rights in their own work? To unambiguously provide this right to artists, the law would need to expand the understanding of “sound recording” in the statutory derivative right. A songwriter should have the derivative right to create AI music based on their own music. As AI tools become more pervasive in the music industry, this right may become more fundamental, especially if these derivatives generate a substantial amount of a hit song’s total lifetime earnings and if these collateral earnings incentivize creative production.

If the law includes AI use as a derivative right, unlicensed AI music may constitute an unauthorized derivative work. So AI composers must negotiate licenses to use a work. Under the court’s narrow reading of 17 U.S.C. § 103(a) in Anderson v. Stallone, the non-infringing portions of a work do not qualify for copyright protection. The court points to case law and the Nimmer treatise, both of which hold that an artist cannot independently copyright any part of an unlawful derivative work because the preexisting material “pervade[s] the entire derivative work,” barring claims over the non-infringing parts. Similarly, copyrighted music pervades an AI-generated piece since the AI copies patterns and builds internal rules based on preexisting works to generate the new piece.

Some experts may question the difference between an AI algorithm and a human composer, given that humans, whether consciously or subconsciously, create heuristics and internal logic as to what “sounds good” based on music they hear. Similar songs from a single artist or in a single album are a product of that internal playbook. But even human composers are liable for copyright infringement under a theory of subconscious copying. Whether AI or human, music composers should pay appropriate compensation to artists whose work they used.

Even if the law recognizes AI as a derivative right, transformative use in case law continues to expand in scope and may resultantly render moot the statutory derivative right. Artists may then question what constitutes a transformative use versus a derivative use. This ambiguity underscores the need for clear legislation that grants songwriters and composers derivative rights in their music.

VI. CONCLUSION

Songwriters and artists should maintain the ability to claim rights in all facets of their musical genius, including the unique structural elements, vocal style, and other distinctive features of their compositions. The technical and legal hurdles involved in analyzing AI music require a simplified contracting approach, which a blanket licensing model may remediate. Eventually, the law will need to adapt to the changing digital music landscape by expanding copyright protection to related, AI-generated forms of expression.

Endnotes

1. There’s no universal legal definition of AI, but many laws make noteworthy attempts. See, e.g. National Artificial Intelligence Initiative Act of 2020, H.R. 6216, 116th Cong. § 3(3); Growing Artificial Intelligence Through Research Act, H.R. 2202, 116th Cong. § 3(1) (2019). Perhaps the most robust definition, the National Defense Authorization Act defines “artificial intelligence” in part as, “Any artificial system that ... can learn from experience ... when

2. Autotune is a pitch correction tool that applies a Fast Fourier Transform (FFT) algorithm across a signal split by a phase vocoder algorithm. U.S. Patent No. 5,973,252 2-3 (filed Oct. 14, 1998) (issued Oct. 26, 1999). Once the frequency is updated to meet the desired value, an inverse algorithm reverses the changes. Id. Sampling synthesizers and harmony generators use similar algorithms to manipulate sound and pitch. Id.


5. The idea-expression dichotomy refers to the tenet of copyright law that mandates protection only for an artist’s particular expression of an idea, while the underlying facts and ideas are never protected. Harper & Row, Publrs. v. Nation Enters., 471 U.S. 539, 547 (1985).


7. The company Algoriffix allows users to upload musical snippets, which the AI can then use to help the artist finish composing a piece, such as by recommending a meter and harmony. ALGORIFFIX, https://www.algoriffix.com. The company even sports the tagline, “AI as your co-writer.” Id.

8. One such company experimenting with using AI to generate music is Jukebox, which describes itself as “a neural net that generates music, including rudimentary singing, as raw audio in a variety of genres and artist styles.” JUKEBOX, https://openai.com/blog/jukebox.

9. For example, Boomy’s AI allows users to instantly generate a song just by selecting a genre. Welcome to the Instant Music Revolution, BOOMY, https://boomy.com/about. The software even helps users distribute and earn royalties on their creations. Id. In some ways, Boomy is lowering the barriers to entry to the music industry, just as the shift to music streaming allowed more people to listen to music and smaller artists to distribute their music. See, e.g., Michael Masnick & Leigh Beadon, The Sky Is Rising: A Detailed Look at the State of the Entertainment Industry 5 (2019), https://skyisrising.com. But by doing so, Boomy’s business model raises a plethora of legal and business questions, including regarding copyright ownership, the potential flooding of the music streaming market, and the resulting impact on traditional licensing revenues.

10. In 2020, audio clips emerged of JAY-Z appearing to rap Shakespeare and Billy Joel’s “We Didn’t Start the Fire.” Mark Hogan, What Does JAY-Z’s Fight Over Audio Deepfakes Mean for the Future of AI Music?, PITCHFORK (May 11, 2020), https://pitchfork.com/thepitch/what-does-jay-zs-fight-over-audio-deepfakes-mean-for-the-future-of-ai-music/ [https://perma.cc/NJN5-T4MT]. A YouTube description noted these works were “entirely computer-generated using a text-to-speech model trained on the speech patterns of JAY-Z.” Id. JAY-Z tried unsuccessfully to take down these videos, with lawyers and other professionals noting that “[y]ou can’t copyright a vocal style.” Id. But, why not?

11. See Bridgeport Music, Inc. v. Dimension Films, 410 F.3d 792 (6th Cir. 2005) (no de minimis defense when defendant didn’t dispute that he digitally sampled a copyrighted sound recording); Ringgold v. Black Entm’t Television, Inc., 126 F.3d 70 (2d Cir. 1997) (no de minimis defense for a short display of a quilt on television). Cf. Newton v. Diamond, 349 F.3d 591 (9th Cir. 2003) (recognized the de minimis defense based on an average listener test for cases with partial literal infringement for music compositions, sound recordings, and perhaps other media).


13. Courts review four factors to determine whether an otherwise infringing use qualifies as fair use: “(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the


15. Campbell, 510 U.S. at 591.

16. Id. at 579. In Campbell v. Acuff-Rose Music, Justice Souter explained that a transformative use of an otherwise infringing work “adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message.” Id. The Second Circuit clarified the definition of transformative use as a work that “serves a new and different function from the original work and is not a substitute for it.” Authors Guild, Inc. v. HathiTrust, 755 F.3d 87, 96 (2d Cir. 2014).

17. Back to the origins of fair use, the court in Folsom v. Marsh exempted a potential infringer from liability if copying was “for the purpose of fair and reasonable criticism” with the intention to criticize, not supersedes, the original work. Folsom v. Marsh, 9 F. Cas. 342, 344-345 (C.C.D. Mass. 1841).

18. These factors were enough to convince a court to recognize an industry-specific tort of hot news appropriation. Int’l News Serv. v. AP, 248 U.S. 215, 229 (1918). This hot news tort was narrowed using certain factors: the information is gathered at a cost, the information is time sensitive, the defendant’s use free rides on plaintiffs’ efforts, the defendant directly competes with the plaintiff, and the ability to free ride would reduce plaintiff’s incentives to gather and distribute information. NBA v. Motorola, Inc., 105 F.3d 841 (2d Cir. 1997). Although this tort was further narrowed in future cases, the NBA factors show intellectual property law’s function of limiting the ability to free ride and maintaining incentives for innovation. See Barclays Capital Inc. v. TheFlyontheWall.com, Inc., 650 F.3d 876, 878 (2d Cir. 2011).


20. Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146, 1166 (9th Cir. 2007).

21. Id. at 1165.

22. Authors Guild, Inc. v. HathiTrust, 755 F.3d 87, 90 (2d Cir. 2014).


24. In her dissent, Judge Nguyen summarizes the holding, “The majority allows the Gayes to accomplish what no one has before: copyright a musical style.” Williams v. Gaye, 885 F.3d 1150, 1183 (9th Cir. 2018).

25. Id.

26. Id. at 1188-89.


29. Id. at 701.


31. For cases of non-literal copying, Judge Learned Hand developed his famous levels of abstraction test that would allow courts to separate a work’s protectable expressions from its unprotectable ideas. Nichols v. Universal Pictures Corp., 45 F.2d 119, 121 (2d Cir. 1930).


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34. Midler v. Ford Motor Co., 849 F.2d 460, 462 (9th Cir. 1988); see also 17 U.S.C. § 102; Butler v. Target Corp., 323 F. Supp. 2d 1052, 1055 (C.D. Cal. 2004). A work must be fixed in a tangible medium to qualify for copyright protection. 17 U.S.C. § 101. Though a stretch and contrary to the Ninth Circuit’s opinion in Midler, a voice embodied in a human being may satisfy the fixation requirement since the 1976 Act clarified that the medium of fixation is immaterial. Why not fixation within a human being? Isn’t the way we express ourselves every day, our personal brand, a worthy form of creativity?

35. Midler, 849 F.2d at 463. The court in Waits v. Frito-Lay, Inc. defines the right of publicity as “the right of a person whose identity has commercial value - most often a celebrity - to control the commercial use of that identity.” Waits v. Frito-Lay, Inc., 978 F.2d 1093, 1098 (9th Cir. 1992).

36. In Midler, the Ninth Circuit held that “when a distinctive voice of a professional singer is widely known and is deliberately imitated in order to sell a product, the sellers have appropriated what is not theirs and have committed a tort in California.” Id.

37. Waits, 978 F.2d at 1098, 1100.

38. Heather Mcdonald, How a Blanket License Is Used in the Music Industry, The Balance Careers (Jan. 20, 2019), https://www.thebalancecareers.com/blanket-license-in-the-music-industry-2460916 [https://perma.cc/PM9U-Y9SF]. In the United States, these organizations include Broadcast Music, Inc. (BMI), the American Society of Composers, Authors and Publishers (ASCAP), and Society of European Stage Authors and Composers (SESAC). Id. Songwriters may only join one PRO, but publishers must join each PRO that their songwriters belong to so that they may claim 50% of the credits. Id. A radio station, for example, will then apply to a PRO for a blanket license to use that group’s catalog of music in exchange for a fee. Id. To help the PRO accurately distribute royalties, the license purchaser must share their playlists or setlists for a certain time period. Id. Blanket licenses are particularly useful in cases where issuing licenses per work or per use would be unduly burdensome. Id.

39. Rights to a particular voice should likely be excluded from this blanket license. Given the intensely personal nature of a voice and the ease of identifying the source of a unique voice, AI companies and others seeking to use a distinctive voice should be forced to negotiate with that individual and establish a fair market price for the use of that voice.

40. While 2021 statistics from IFPI note that 30% of users still engage with music through copyright infringement, the same data also shows that 78% of people listen through a licensed audio streaming service, a trend that is accompanied by a 51% rise in time spent listening to music through subscription streaming services. International Federation of the Phonographic Industry (IFPI), Engaging with Music 2021 9, 21, https://www.ifpi.org/ifpi-releases-engaging-with-music-2021/ [https://perma.cc/Z7R4-DB9M].

41. Copyright protection extends to derivative works and compilations. Under 17 U.S.C. § 106(2), a copyright holder has the exclusive right to create derivative works, which includes a “sound recording . . . or other form in which a work may be recast.” 17 U.S.C. §101 (definition of a “derivative work”).


43. Id. at *27-30 (quote is at *28).

44. In Three Boys Music Corp. v. Bolton, the jury found that Bolton’s hit “Love Is a Wonderful Thing” infringed on the Isley Brothers’ song of the same name based on access and substantially similarity. Three Boys Music Corp. v. Bolton, 212 F.3d 477, 481, 486 (9th Cir. 2000). Sufficient circumstantial evidence of access existed given the widespread dissemination of the original song where Bolton grew up and a strong similarity to the original song, both of which pointed to subconscious copying. Id. at 482-84.

45. Kienitz v. Sconnie Nation LLC, 766 F.3d 756, 758 (7th Cir. 2014).
2022 ELI Writing Competition Runner-Up Essay: Beyond a Reasonable Doubt: How Blockchain Technology Can Shift The DMCA’s Burden Of Notification Away From Copyright Owners

By Michael Harrigan

I. Introduction

The blockchain revolution has reached the music industry with full force, and its shockwaves are not going unnoticed. Artists such as Taylor Bennet, Grimes, and Steve Aoki have all made headlines for experimenting with NFT’s (non-fungible tokens) and its underlying blockchain technology to increase revenues while reducing payments to intermediaries. Hip-Hop icon Jay-Z currently finds himself in the wake of a copyright infringement lawsuit staking claim over the unauthorized auction of an NFT containing the copyright to his debut album *Reasonable Doubt*, a case that could potentially set a much needed precedent regarding the application of Copyright Law to digital assets. In an age where digital streaming is rapidly evolving, the law already lags well behind the industry’s innovation, and it is safe to say the blockchain frenzy has brought along a new set of complicated legal challenges that must be addressed.

Music and blockchain are no strangers, the implementation of the decentralized technology as a solution to industry issues has been heavily contemplated in recent years. The rise in popularity surrounding blockchain technology has left many wondering what makes this new technology so appealing. One of the primary reasons artists are making the switch from traditional publishing to personalized sales on the blockchain stems from the disparity between the growth of the music industry and the lack of growth in artist income. In 2020, streaming services such as Spotify and Apple Music brought in $10.1 billion in revenue, making up 83% of total retail revenues for the U.S. music industry. That number is expected to be shattered based on RIAA estimates through the first half of 2021. Meanwhile, copyright owners are battling with their service providers to prevent royalty rates from reaching an all-time low, which are already set at just fractions of a penny.

On its face, blockchain technology may seem to pose a threat to the streaming services holding majority of the industry’s market share. However, it is more likely that the rising popularity of music sales on NFT exchanges simply represents the growing frustration among artists to be properly compensated by their service providers. As digital streaming settles in as the primary source of music consumption, streaming platforms have been put under increasing pressure to properly distribute streaming royalties and ensure licenses to distribute music are attributed to the proper parties. Legislation such as the Digital Millennium Copyright Act (DMCA) and the Music Modernization Act have made strides to adapt the current Copyright Law framework to the advances of the streaming era. Yet, the shortcomings of copyright legislation have created a greater mess for rightsholders and streaming services, indicating a need for change.

The current Copyright Law, specifically the Digital Millennium Copyright Act, can no longer ignore the availability of blockchain technology as a solution to reduce copyright infringement on online platforms.
and to remove the burden on rightsholders to protect their copyrighted materials. This essay will provide a brief background of the DMCA and how it provides certain online platforms liability protection from copyright infringement. An overview on blockchain technology will then provide clarity as to how this rapidly evolving technology has major implications on the future of the music industry. Finally, the article will discuss how the DMCA sets the stage for the implementation of blockchain technology to help identify instances of copyright infringement, and how a simple adjustment to the current law can help rightsholders and online platforms get back to the collaborative framework the DMCA was intended to provide.

II. The Digital Millennium Copyright Act
In 1998, the Digital Millennium Copyright Act (DMCA) was enacted by Congress to create a collaborative system between copyright holders and online service providers (OSP’s) to adapt copyright infringement policies to the evolving digital revolution. A key provision of the DMCA is the Online Copyright Infringement Liability Limitation Act (OCILLA), which came to be known as the DMCA’s “safe harbor provision.” The safe harbor provision grants OSP’s limited liability protection, upon meeting specific criteria, when third-party infringement of copyrighted materials occurs on their platforms. Essentially, a website is not liable for monetary damages in copyright infringement disputes if the website “responds expeditiously to remove, or disable access to, the material that is claimed to be infringing.” Furthermore, OSP’s must adopt a repeat infringer policy that does not interfere with “standard technical measures” in order to enjoy the limited liability protections of the DMCA. Once OSP’s meet these criteria, the rest of the work is placed upon the copyright holders.

Copyright infringement allegations require the rightsholder to provide a written notice of copyright infringement to a designated agent of the service provider, who must then act expeditiously to remove or disable the alleged infringing material. In the early years following the passage of the DMCA in 1998, the co-operation between copyright holders and OSP’s worked effectively to incubate the growth of the internet and to adopt a “notice-and-takedown” policy whereby copyright holders would notify the service providers of any infringing activity and the service provider would quickly take the proper steps to identify and remove the material. Over the years, however, the growth of the internet has made it nearly impossible for music rightsholders to keep track of and identify every instance of infringement.

The DMCA currently does not place a duty on service providers to monitor infringing material on their platforms. The entire burden is thus put on copyright owners to detect infringement. This burden gives rise to a “whack-a-mole” problem where copyright owners must scour the internet and file a DMCA takedown notice every time their work is uploaded without permission. There is a firm divide as to whether an affirmative monitoring requirement should be required for online service providers. Proponents of the DMCA claim the current burden of notification placed on rightsholders reduces uncertainty regarding the liability of OSP’s when infringing material is uploaded; and requiring OSP’s to monitor all material for infringing activity would place an even greater burden on service providers, especially those smaller in size. Meanwhile, copyright holders in recent years have argued the internet’s enormous growth since the enactment of the DMCA in 1998 has caused the law to stray from its original objective, as current notice-and-takedown strategies are becoming ineffective, and service providers are able to enjoy the liability protections of Section 512 with ease.

The broad definition of who may qualify as an online service provider has allowed for a multitude of websites and platforms—such as YouTube and Twitch—to enjoy the protections of the DMCA safe harbor provisions. Even NFT exchanges like OpenSea have taken advantage of the DMCA’s safe harbors to protect against liability for art and musical works exchanged on their platform. However, some of the most widely used music streaming platforms, including Spotify and Apple Music, fall just outside the
protections of the DMCA, and thus face an onslaught of liability.\textsuperscript{29}

The DMCA oversees far more than just music. Yet, the growth of the internet and its technological capacities over the last three years alone has given rise to a new conversation about how the music industry can understand the current legal framework and make adjustments to remain ahead of the curve in protecting artists’ works and the platforms that distribute these works.

\section*{III. Blockchain Technology meets the Music Industry}
Blockchain technology is a tamper-proof ledger system operating on a decentralized network, where specific data is stored in “blocks” representing one transaction on the network that is time stamped upon creation.\textsuperscript{30} Each block contains data pertaining to anything of value, tangible or intangible, which is linked to the previous block through a “hash value”,\textsuperscript{31} so the alteration of any one block on the chain results in the alteration of every subsequent block.\textsuperscript{32} The addition of a new block requires a consensus among the existing members of the respective network, which fosters further transparency and security.\textsuperscript{33} Blockchain technology is decentralized in the sense that all the information is regulated by the existing network, rather than a single entity.\textsuperscript{34} Therefore, data entries on the blockchain are publicly accessible and can be authenticated and verified quickly.\textsuperscript{35}

While blockchain technology is the framework allowing for the storage of information, “Smart Contracts” are another feature of blockchain technology facilitating the exchange of ownership information.\textsuperscript{36} Smart contracts are computer programs created to perform specific actions if pre-defined conditions are met.\textsuperscript{37} For example, smart contracts can execute the transfer of rights of a musical work from the original rightsholders, to a record label, to a streaming platform seeking executive licenses, and even consumers themselves, all while keeping track of ownership and properly distributing royalties.\textsuperscript{38} Although smart contracts on the blockchain have their technological limitations,\textsuperscript{39} commentators have agreed that the effectiveness of this technology cannot be overlooked, as it will encourage careful consideration and forward thinking in contract formation.\textsuperscript{40}

NFT’s are another subset of blockchain technology that display similarities to cryptocurrencies like Bitcoin, except each individual NFT has one-of-one uniqueness.\textsuperscript{41} The increasing popularity among musicians to distribute their music as NFT’s puts the power of blockchain technology on full display. Blockchain creates a more direct avenue for musicians to connect with their supporters by distributing their work as NFT’s, where consumers can pay artists directly for their music.\textsuperscript{42} The skepticism surrounding NFT’s,\textsuperscript{43} however, suggests that this form of music distribution may not have long-term sustainability. “Without a specific contract saying otherwise, a NFT does not grant ownership of the artwork it points to in any meaningful sense.”\textsuperscript{44} Knowledge on how NFT’s operate and interact with the current Copyright Law is critical for musicians to understand the steps necessary to protect their musical works.\textsuperscript{45} The lack of precedent applying Copyright Law to digital assets puts further pressure on musicians to take extra precautionary measures before entering the NFT space.\textsuperscript{46} Nevertheless, the underlying blockchain technology still has untapped potential that can assist in addressing legal challenges within the music industry.\textsuperscript{47}

\section*{IV. Blockchain Technology as a “Standard Technical Measure”}
Section 512 of the DMCA states that service providers may enjoy the protections of the DMCA safe harbor only if they, “accommodate and do not interfere with standard technical measures.”\textsuperscript{48} However, no standard technical measure for identifying and monitoring copyrighted materials currently exists within the music industry or any other digital medium.\textsuperscript{49} Although OSP’s are not required to adopt technology to mitigate copyright infringement, several service providers have implemented voluntary approaches--such as YouTube’s Content ID program\textsuperscript{50}--to help protect rightsholders works.
NFT exchanges such as OpenSea and SuperFarm have been able to use their status as OSP’s to utilize the DMCA safe harbor protections for copyrighted material reported on their platforms, although some argue that these platforms continue to neglect copyright holders. Notice-and-Takedown is the most common takedown procedure among OSP’s operating under the DMCA. The notice-and-takedown procedure requires copyright holders to file a DMCA takedown notice to the service provider, upon which the service provider must act “expeditiously” to identify any potentially infringing material and take the proper steps to remove, or disable access to, the material. Once a takedown notice is submitted, a counternotice may then be returned by the user or service provider who posted the alleged copyright material. The back-and-forth battle between copyright owners and OSP’s, who often bring in third parties for claims of contributory infringement, to gain control over the rights to a work often allows service providers to continue profiting from infringing material as litigation persists.

Blockchain technology makes up the very foundation of NFT marketplaces, so why not require these platforms to use the technology resting on their fingertips to help thwart copyright issues from the start. Since there is no requirement for streaming platforms to accurately monitor copyrighted material on their platforms, and there is little existing law that explains the relationship between blockchain technology and the Copyright Law, streaming platforms are entering unchartered waters where the law needs to offer much needed guidance.

For example, on June 18th, 2021, Roc-A-Fella Records, Inc. (RAF inc.) filed a lawsuit against Damon Dash alleging Dash intended to sell the copyright of Reasonable Doubt, the debut album of Shawn Carter a.k.a. Jay-Z, as an NFT through an online auction. Dash owns a one-third stake in Roc-A-Fella, Inc., but Jay-Z and his team of lawyers argue that Dash did not own the copyright to the musical work. Dash’s attorney countered, stating they were trying to assign the rights of future royalties that Dash is entitled to as a part owner of RAF Records. Although this case has not yet been decided, the outcome could provide clarification as to how Copyright Law intertwines with digital assets such as NFT’s, and why the current legal framework should be adjusted to prevent the increasing number of copyright infringement lawsuits arising from this uncertainty.

Although the idea of blockchain technology is complex, its solution to the growing issues of copyright infringement throughout the expanding internet is quite simple. The transparent and easily traceable qualities of blockchain technology can create a standardized platform for uploading copyrighted works, where artists and service providers can work together to encrypt copyright information within the digital music files uploaded onto an OSP. Blockchain’s ledger technology can then keep a close eye on uploaded materials with ease, ensuring copyrighted works are not being uploaded without permission of the rightsholders. Smart contracts can facilitate the payment of royalties to identifiable copyright owners, eradicating the issue of unpaid royalties plaguing artists throughout the music industry. If streaming services have this technology at their disposal, these platforms should have some duty to take reasonable measures to ensure artists’ copyright materials are not being uploaded and profited from without the permission of the rightsholders. Not only will this require streaming services to make greater efforts to protect copyright owners, but it will also relieve the overworked copyright holders who have carry the burden of filing takedown notices.

The adoption of blockchain as a “standard technical measure” will not only reduce the unfair burden on copyright holders to identify unauthorized use of their work, but also allow service providers to maintain their protections under the DMCA safe harbors, while returning to the collaborative effort to prevent copyright infringement intended by the DMCA drafters. Furthermore, streaming platforms such as Spotify and Apple Music can utilize blockchain technology to gain DMCA safe harbor protection. These streaming platforms must obtain licenses from the copyright holders to distribute their music, which creates a more cooperative process where the copyright owners have increased bargaining power. If a standard technological measure, such as a blockchain operated copyright ledger, is established, then they
could enjoy the protections of Section 512 safe harbors against anti-circumvention liability. The adoption of blockchain technology as the standard technological measure to prevent the copyright infringement of digital content can benefit licensee platforms such as Spotify by ensuring further transparency for its content creators and reducing the amount of unpaid royalties resulting from unidentifiable works.\(^6\)

A blockchain solution to monitor copyright information will not occur overnight, and it will have to stem from legislative change. Many states legislatures have already begun to investigate the positive benefits of blockchain technology to improve government services.\(^6\) The use of blockchain technology is going to continue to grow in the coming years, and its application will go beyond the buying and selling of music and art NFT’s.\(^6\) Streaming services need to realize the reason so many artists are using this technology is to get closer to their listeners in a way that current streaming platforms cannot offer. Service providers must take similar action in using their platforms as a vehicle to bring the artists closer to their listeners, while increasing the economic benefits to all parties involved.

V. Conclusion
The evolution of digital music streaming and now the advent of music NFT’s has created opportunities for artists to connect with their fans in ways that have never been achieved. The internet’s growth and innovation, however, has been accompanied by an increased threat of copyright infringement that is difficult to prevent. The current framework of Copyright Law is not yet fully equipped to tackle the legal issues arising from this new digital millennium. However, there is an opportunity for the law to adapt in a way that protects online service providers and their copyright owner counterparts. The implementation of blockchain technology to trace and identify copyrighted works has the potential to improve the relationship between streaming platforms and artists, while reducing the burden on the copyright holder to scour the internet in search of copyrighted materials. The power of blockchain technology poses a viable solution to help copyright owners and online service providers get back to the collaborative nature the Copyright Law was designed to nurture.

Endnotes
1. A non-fungible token, or NFT, is a unique, individualized digital asset issued through distributed ledger technology. Much like cryptocurrencies, NFT’s can be easily identified and authenticated via decentralized systems of nodes that operate on the blockchain. However, NFT’s provide a method of “provable uniqueness” and ownership for digital pieces of art, music, and other digital content. It is possible to have a copy of the same content, but only the owner of the specific token can prove authentic ownership of the digital content. Daniel S. Cohen et al., The Coming Blockchain Revolution in Consumption of Digital Art and Music: The Thinking Lawyer’s Guide to Non-Fungible Tokens (NFTs), 26 No. 6 Cyberspace Lawyer NL 1 (2021).


4. Tran Ngoc Linh Tam, Music Copyright Management on Blockchain: Advantages and Challenges, 29 Alb. L.J.Sci & Tech. 201,226-27 (2019). (Finding that the current application of blockchain technology is in its early stages which means the technology still has practical barriers, although there is the potential for positive impacts on the music industry such as tracing royalty payments and increasing data transparency).

5. Angelo Massagli, The Sample Solution: How Blockchain Technology Can Clarify a Divided Copyright Doctrine on Music Sampling, 27 U. Miami Bus. L. Rev. 129,131 (2018). (Noting blockchain technology has been widely acknowledged for its potential to positively impact the music industry that is currently dealing with a multitude of legal issues including compensation and copyright infringement).

6. Digital streaming services include on-demand steaming platforms such as YouTube and Vevo, in addition to the


8. Streaming services proposed a mechanical royalty rate as low as 10.5 percent to the Copyright Royalty Board for 2023 through 2027, which would create the lowest amount of royalties paid by streaming services in the last 15 years. Evan Bogart, What Songwriters Need To Know About The Next Royalty Rate Decision, GRAMMY ADVOCACY, (December 10, 2021, 8:55 AM), https://www.grammy.com/advocacy/news/what-songwriters-need-know-next-royalty-rate-decision.

9. The Copyright Royalty Board is tasked with setting the copyright royalty rates for the rights to reproduce and distribute musical works every five years. In 2018, the Copyright Royalty Board initially raised the royalty rate from 10.5% to 15.1% of revenue generated from music streaming. See Johnson v. Copyright Royalty Board, 969 F.3d 363, 366-67, 375 (D.C. Cir 2020).

10. See Andrew Massagli, supra note 5 at 131.

11. See Generally, 17 U.S.C. § 101-1401 (2018) (providing that the Music Modernization Act and the Digital Millennium Copyright Act are the two most significant amendments to the Copyright Act of 1976). See also, Jillian J. Dahrooge, The Real Slim Shady: How Spotify And Other Music Streaming Services Are Taking Advantage Of The Loopholes Within the Music Modernization Act, 21 J. High Tech L. 199, 203-04 (2021). (Noting that the MMA was passed by Congress to address current issues within the Copyright Act of 1976 as music transitions into the streaming era).

12. Garry Gabison, Policy Considerations for the Blockchain Technology Public and Private Applications, 19 SMU Sci. & Tech. L. Rev. 327, 339 (2016). (Noting that blockchain solutions specifically within copyright fields would require a reassessment of specific legislation like the DMCA before effective solutions can be implemented).

13. An online service provider, OSP, is an entity that offers “transmission, routing” or “connections for digital online communications. . . without modification to the content of the material as sent or received.” See 17 U.S.C § 512(k)(1)(A) (2018).


15. Methaya Sirichit, Catching the Conscience: An Analysis of the Knowledge Theory under 512(c)’s Safe Harbor Provisions & The Role of Willful Blindness in the Finding of Red Flags, 23 Alb. L. J. Sci. & Tech. 85, 117-19 (2013) (Explaining that the DMCA safe harbor sought to clarify service providers’ liability that resulted from third party infringement including direct, vicarious and contributory infringement).


18. “Standard Technical Measures” are defined as technical measures used by copyright owners to identify or protect copyrighted works and: (1) have been utilized by a broad consensus of copyright owners and service providers (2) are easily available and nondiscriminatory in accessibility and (3) do not impose substantial costs or burdens on service providers. See 17 U.S.C. § 512(i)(2).

19. A “repeat infringer policy” has been inconsistently defined by the courts, and sometimes not enforced at all, putting a greater burden on the copyright owner’s duty to notify the OSP of infringement. See Jessica E. Gopiao, supra note 16 at 272-73.

20. 17 U.S.C § 512(c)(3).

21. Evan Engstrom & Nick Feamster, The Limits of Filtering: A Look at the Functionality and Shortcomings of Content Detection Tools, 1,2 (2017), https://www.engine.is/the-limits-of-filtering. (Explaining that a notice-and-takedown strategy is one in which a service provider removes access to an infringing file upon request and the recent argument to change the DMCA requirement to a notice-and-staydown strategy would require service providers to proactively identify and remove infringing material).

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23. Viacom Intern., Inc. v. YouTube, Inc. 676 F.3d 19, 41 (2nd Cir. 2012) (holding that the Section 512 safe harbor expressly disclaims any affirmative monitoring requirement except that refusing to accommodate a standard technical measure can expose the service provider to liability). See also, Capitol Records, LLC v. Vimeo, LLC, 826 F.3d 78, 94 (ruling that the service provider has the burden of proving they qualify for the safe harbor protections of Section 512 but the burden rests upon the copyright holder to prove the service provider’s misconduct disqualifies them from safe harbor protections).

24. The continuous filing of takedown notices by copyright owners every time a user uploads infringing material has been referred to throughout the music industry as the “whack-a-mole” problem. See Gopiao, supra note 16 at 274.

25. Engstrom & Feamster, supra note 21 at 8.

26. Id.

27. Gopiao, supra note 16 at 273


29. Streaming platforms like Spotify are not the actual copyright holders of their music, but rather a licensee that may not qualify for protections under the DMCA. Furthermore, these streaming platforms do not qualify as OSP’s under the DMCA because these platforms must obtain licenses to upload artists’ music on their interactive streaming platforms, giving copyright holders more bargaining power. Paige Clark, The Invisible Defense Against Music Piracy, 15 J. Marshall Rev. Intell. Prop. L. 297, (2016). See also Gopiao, supra note 16 at 274-75.


31. A cryptographic hash is an abbreviated reference to the data block before it, found in each block, [the hash] keeps the blocks in proper order. “In theory, no one can alter an existing transaction, because every block is linked in an immutable sequence.” See Kevin Werbach & Nicolas Cornell, Contracts Ex Machina, 67 Duke L.J. 313, 327 (2017).

32. Pech, supra note 20 at 11.

33. Id.

34. Id. at 11. See also, George Bouchigar, Collective Management Organizations as Fiduciaries and Blockchains Potential for Copyright Management, 66 J. Copyright Soc’y U.S.A. 201, 215 (2018).


36. Pech, supra note 20 at 35.

37. Id.

38. Collective Management Organizations, or CMO’s, have faced criticism for their lack of transparency and inability to keep track of resales, hurting the rightsholders who already struggle to exercise copyright rights. However, blockchain distributed ledger technology can conduct the traditional role of the CMO, but it will allow copyright information to become transparent, while rights can be distributed or monitored with more accountability and efficiency. See Zhao Zhao, Fulfilling the Right to Follow: Using Blockchain to Enforce the Artist’s Resale Right, 39 Cardozo Arts & Ent. L. J. 239, 252-56 (2021).


40. Cornell, supra note 31 at 374-75. See also. Net Metering, FL. S.B. 1024, Florida One Hundred Twenty-First Regular Session, § 1 (2021) (recognizing that blockchain and distributed ledger technology is a promising way to provide government services for recordkeeping, data security, and service delivery).

41. Cohen et al., supra note 1

42. Arya Taghdiri, How Blockchain Technology Can Revolutionize the Music Industry, 10 Harv. J. Sports & Ent. L. 173, 178-179 (2019). (Noting that smart contracts utilized through blockchain technology can facilitate many
of the same transactions between artists and their consumers as record labels do, making this technology especially promising for smaller musicians in the industry.


45. See generally, Cohen et al., supra note 1

46. Id.

47. Taghdiri, supra note 42 at 181-82.


49. Engstrom & Feamster, supra note 51 at 7

50. Google Additional Comments USCO Section 512 Study (page 2)


52. The rule that OSP’s are required to proactively monitor content for infringing material is only theoretical, because “standard technical measures” as defined by Section 512 do not currently exist over a broad consensus within the online ecosystem. See Engstrom & Feamster, supra note 21 at 7. Citing L. Gallo, The Impossibility of “Standard Technical Measures” for UGC Websites, 34 Colum. J.L. & Arts 283 (2011).


55. “One infringes contributorily by intentionally inducing or encouraging direct infringement while declining a right to stop or limit it.” Eight Mile Style, LLC v. Spotify USA Inc., 535 F. Supp. 3d. 738, 745 (2021) (holding that the Harry Fox Agency, an agent of Spotify, did not face secondary liability against Eight Mile Style, affiliates who own the rights to Eminem’s musical compositions, because Spotify was the principal engaging in streaming music without a proper mechanical license). See also, Jillian J. Dahrooge, The Real Slim Shady: How Spotify and Other Music Streaming Services Are Taking Advantage of The Loopholes Within the Music Modernization Act, 21 J. High Tech. L. 199, 213-14 (2014). While streaming services seek copyright holders of unidentified works, or battle with copyright holders over takedown notices, streaming services may continue to profit off music on their platforms that have been uploaded without a license or proper ownership to the copyright


57. Id.

58. “Dash is just trying to assign the rights to future royalties he's entitled to as a one-third owner of Roc-A-Fella, as artists have done for a long time, said his lawyer Natraj Bhushan.” Chris Dolmetsch, Jay-Z’s Legal Dispute with Damon Dash Hits the NFT Space, (September 16, 2021, 1:24 PM) https://fortune.com/2021/09/16/jay-z-damon-dash-roc-a-fella-nft-lawsuit/.

59. Fair use and first sale rights would likely apply to the creation and distribution of NFT’s, but there are currently no court decisions that apply these traditional copyright doctrines to the sale of NFT’s or through any other platform that utilizes blockchain technology. See Cohen et al., supra note 4

60. Blockchain-based platforms use smart contracts to distribute royalty payments and can even set up the smart contracts in a manner that allows royalties to be distributed by a pre-determined split to each contributor of the song. Furthermore, these automated transactions would occur faster than current royalty payment systems and have the ability to trace and verify copyright owners more efficiently than current methods. See Tran Ngoc Linh Tam, supra note 4 at 220-24.


62. The installation of “tamperproof hardware” on streaming services to prevent circumvention of copyrighted
material is another way in which blockchain technology can be utilized to meet the needs of OSP’s and copyright holders who seek the protections of the DMCA. See Clark, supra note 29 at 314.

63. Gopiao, supra note 16 at 274-75.
64. Dahrooge, supra note 55


66. The NFT space has seen digital art such as CryptoPunks and NBA Top Shot, and other projects sell for hundreds of thousands of dollars. However, the eventual goal of NFT’s and its underlying blockchain technology is to achieve the “long-touted and practically elusive” goal of making blockchain technology a tool to allow artists to benefit from their creations with a reduced need for intermediaries while also protecting investors through authentication of the works. See Cohen et al., supra note 1.
Welcome to the Metaverse: Solving Old-World Licensing in a Whole New Universe

Bu Chelsea Cohen

I. Introduction
The metaverse can be defined relatively broadly as the next iteration of the internet – a shared virtual space where people can interact with one another as avatars navigating a three-dimensional environment. While the metaverse is still a work in progress, the opportunities for the music industry are huge, with some already being taken advantage of. Music can be streamed and concerts viewable to an international audience in a single place, giving rise to a new ecosystem for traditional revenue streams to grow. For example, artists can make large profits via non-fungible tokens (NFTs) as shown by Kings of Leon being the first band to fully release an album as an NFT which quickly grossed over two million dollars in its first week.

The continued growth of music publishing’s revenue streams is now primarily driven by the popularity of interactive streaming as the impact of COVID-19 can still be felt in other areas like live concerts. Recent reports from the better half of 2021 show that ticketholder attendance for concerts for larger name artists such as George Strait and The Eagles dropped significantly with “no-shows” rising about five percent from the previous year. The no-show percentages rise even higher for smaller venues and artists, hitting the indie side much harder as they often rely on food and merchandise sales for generating revenue. The metaverse has now become a new method to stream and deliver music from one’s own home with current predictions showing that the market opportunity for the metaverse reaching $800 billion by 2024. But while this new age of tech allows us to interact in ways that were currently thought impossible, a similar issue still remains – how songwriters and publishers will get paid in a world still under construction and attributed for its lack of regulation.

This paper proposes a possible solution to the problem of licensing music in the metaverse. Part II will discuss the current state of licensing for streaming, how the Music Modernization Act (MMA) has begun to tackle the royalties and licenses associated with digital service providers (DSPs), and how music has begun its shift into the metaverse. Part III proposes both a legislative and administrative solution to better enforce and regulate fair rates for publishers and songwriters in Web 3.0. Finally, Part IV will discuss a practical way to implement the solution with a comparison of the MMA and Mechanical Licensing Collective (MLC) as related to streaming.

II. Current State of Interactive Music Streaming
In the first half of 2021, the revenues for recorded music in the U.S. grew by 27% with streaming (YouTube, Spotify, etc.) making up 84% of that revenue and contributing most to its growth from 2020. Of course, this should not be news to anyone, especially with the impact of COVID-19 on the industry causing concert cancellations, store closures, and other interferences continuing from the prior year. Moreover, purely owning rights and monetizing through subscription streaming channels will no longer deliver a worthwhile profit margin as they become more commoditized. However, the commercial opportunities available to those prepared to use all of the available technology to engage and create is...
immense. For instance, the biggest arena tours cannot match anything close to the instant, one-time global audiences found in a metaverse performance.\textsuperscript{12} While most of the recorded music industry’s revenue can be attributed to DSPs for now, it is important to acknowledge the rise of a new digital ecosystem.

\textit{a. The Music Modernization Act}

Interactive streamers such as Spotify and Apple Music have to pay both mechanical and public performance royalties for every song in their systems but massive repertoires of music readily available at the click of a user’s fingertips made paying out the compulsory and statutory licenses for each individual song more complex and costly than ever.\textsuperscript{13} To meet the technological advances of streaming and to allow songwriters and publishers a more efficient administrative system to collect royalties from it, the Music Modernization Act (MMA), specifically \textit{Title I}, was enacted in 2018 which replaced the existing “song-by-song compulsory licensing structure for making and distributing musical works” with a blanket licensing system for DSPs.\textsuperscript{14} The blanket license is administered by the Mechanical Licensing Collective (MLC) as of January 1, 2021, and controlled by music publishers and songwriters while funded by the digital service providers as a form of compromise.\textsuperscript{15}

Pre-MMA, the compulsory rate for mechanical licenses under Section 115 of the Copyright Act was set by the Copyright Royalty Board (CRB) based on a reasonableness standard defined in Section 801(b).\textsuperscript{16} With the implementation of the MMA however, 801(b) was replaced by a new rate-setting standard reflecting a “willing buyer/willing seller” model that would match, or attempt to match, the fair market value.\textsuperscript{17} The CRB must now consider “economic, competitive, and programming information presented by the parties.”\textsuperscript{18} This is accomplished by two main elements: the extent to which the use may “substitute for or may promote” recorded music sales or otherwise affect revenue that the copyright owner may earn from other uses and the CRB, much like in 801(b), must assess “the relative roles of the copyright owner and the compulsory licensee in the copyrighted work and the service made available to the public with respect to the relative creative contribution, technological contribution, capital investment, cost, and risk.”\textsuperscript{19} This new standard hopefully increases royalties to songwriters and publishers for their mechanical licenses as it rids the pre-existing rate-setting discrepancies that generally meant lower rates for songwriters and publishers as opposed to their counterparts (labels and recording artists) and in some instances, even their own income from performance licenses.\textsuperscript{20} Yet, when the license is imposed by statute and rate determined by a few judges, the extent that fair market value will be reflected is unlikely.\textsuperscript{21}

Thus, the more significant change by the MMA is the establishment of the MLC and its administration of licenses and royalties.\textsuperscript{22} The MLC, operating as an independent non-profit, issues the blanket licenses to DSPs, collects the mechanical royalties for those licenses, and then distributes to the correct copyright owners.\textsuperscript{23} Moreover, the MLC establishes and maintains a centralized database that tracks the musical compositions in individual sound recordings, the copyright owners of those compositions, the respective ownership shares, and the contact information for each owner.\textsuperscript{24} Additionally, licensees must serve Notices of Intent (NOIs) to the MLC instead of individual copyright owners or the Copyright Office, likely ending the use of third-party copyright administrators like the Harry Fox Agency (HFA),\textsuperscript{25} and unburdening the Copyright Office from trying to locate the copyright owners for the DSPs.\textsuperscript{26} So far, the MLC’s first calculation of royalties, totaling over $53 million, had $13 million from matched royalties covered by preexisting voluntary licensing agreements.\textsuperscript{27} In addition to the $40 million collected in direct payments on behalf of the registered songwriters and composers, $24 million was disbursed to members, with $11 million unmatched and around $5 million unclaimed.\textsuperscript{28} While an impressive feat for its beginning, money is still left on the table and only time will tell how effective this new system can be as streaming booms.

Moreover, while mechanical royalties have traditionally comprised a significant portion of songwriters’ incomes, they declined dramatically where songwriters barely generate $1 in mechanical royalties for
every $3 in performance income despite the rise of streaming. The MMA also addresses how the performing rights royalty’s, initiated whenever a song is performed publicly, rates are set. Performance rights organizations (“PROs”) are the groups that negotiate and collect on performance licenses for musical compositions on behalf of songwriters and publishers. There are four major PROs within the U.S. but the majority of songwriters belong to the two oldest: ASCAP and BMI.

However, due to the 1941 antitrust suit from the DOJ against ASCAP and BMI, both organizations are now under the strong arm of consent decrees that essentially ensure that the performance royalty rates that could be negotiated remain well under market value. Moreover, the restrictions under the consent decrees include the rate-setting provisions that allow a prospective licensee to seek a determination of a license fee from a federal judge in the Southern District of New York if the two PROs cannot agree to an equal rate. The MMA reformed the rate court by assigning each new rate dispute a different judge on a rotating basis instead of all disputes being handled by the same judge. It also partially repealed Section 114(i) (mirrored in Section 115) of the Copyright Act which now allows the rate court to consider royalties paid to recording artists in its rate-setting determination for the public performance of musical works. Currently, recording artists can make up to ten times more than songwriters for the exact same performance due to the imbalance of royalty rates. Considering labels and recording artists have more freedom to negotiate rates without government intervention, it remains to be seen how the MMA evens the playing field and how its implications can be applied in the metaverse.

b. Music in the Metaverse

As the MMA addressed interactive streaming with valiant efforts, technology has already advanced. The metaverse, in its endless possibilities for music, allows not only interactive streaming, but also live performances, downloads, and transfers of digital property that can be bought and resold, in a single location. Many artists are already taking advantage of the new medium from Ariana Grande and Justin Bieber hosting massive concerts set in virtual reality to Meek Mill releasing his final Dreamchasers mixtape as an NFT. However, unlike DSPs, the metaverse is not controlled by a single entity. The metaverse’s draw is its community ownership where no single authority can control what users can or cannot do (not entirely new). What is unique about this decentralized universe is the introduction of digital property rights. Much like selling a vinyl record to a fan, artists can sell a digital song as an NFT which can earn more money for the artist quicker than releasing on a DSP with most of the revenue going directly to the artist. Moreover, while streaming does not allow fans to own the song, NFTs give fans something to hold onto, a memento that is entirely theirs. The artist retains the copyright whereas the buyer holds a digital copy that can be limited or even a single edition. Dropping music digitally in Web 3.0 allows secondary market royalties to be added to smart contracts which govern the exchange of digital items, ensuring the artists get compensated indefinitely every time their work is resold.

Yet, while on its face the metaverse seems to fill the gaps the MMA left, licensing issues remain unaddressed. For the most part, traditional licensing rules applicable to online exploitation would apply equally in the metaverse. However, the proliferation of music performance and exploitation in new, closed, or open online environments adds another layer to an already complex chain in music licensing. For example, Ariana Grande’s Fortnite concert still required a public performance license, but the major PROs who pay the royalties remain governed by WWII-era consent decrees that continue to devalue this space. Additionally, each time copyrighted music is synchronized with an audiovisual medium like a recorded Roblox performance, functional synchronization licenses are required. With no compulsory license requirement nor consent decrees to regulate the rates for synchronization licenses, songwriters and publishers can level the playing field to match their label and recording artist counterparts.

However, the age-old problems of copyright infringement persist. As evidenced by the National Music
Publishers' Association's (NMPA) suit against Roblox that settled earlier this year (reasonably assumed to be nine figures), infringement is still alive and well in the metaverse. As metaverse worlds continue to develop, it is critical that the tech companies behind them license musical work before released into their platforms. With music as the drawing force to the metaverse, tech companies cannot disregard existing licensing standards only to give in to after damages are incurred.

III. Proposed Solution for Music's Transition into the Metaverse
With the decentralization of the metaverse, protecting songwriter and publisher copyrights and ensuring proper licenses are paid to the correct owners becomes a bit more complex than in the physical world. Not only will tracking the metadata be a feat, but the metaverse offers an environment where music can be streamed, downloaded, purchased, and performed in one “event”, implicating performance, mechanical, and synchronization rights simultaneously. Subsequently, this new unregulated environment where market value reigns supreme produces a similar problem: tracking, collecting, and distributing royalties on a massive scale – especially with no oversight – can be costly to both artists and the platforms. Thus, the solution I propose involves legislative and administrative action that can have a similar structure as the MMA and MLC.

The first step is to amend Section 106 of the Copyright Act to reflect the creation of digital property rights for creators in the metaverse. This new digital right would function specifically for the metaverse and run on blockchain. The imposition of such amendment could also alter music licensing to where another reevaluation of the consent decrees governing the PROs can be eliminated allowing fandoms within the metaverse to set fair market rates. Next, much like the MMA created the MLC, similar legislation should be enacted to create an independent, non-profit body that would effectively have a similar function but expanded to the new digital property right, along with the capability to manage the metadata for performance, mechanical, and synchronization licenses to be discussed in more detail in Part IV.

IV. Implementation as Structured Against the MMA
This new body, termed the Digital Rights Collective (DRC), like the MLC, will function in an administrative capacity not only to track, collect, and distribute royalties across separate metaverse worlds (i.e., Fortnite, Roblox, and Decentraland), but will also act as an enforcement mechanism via blockchain and smart contracts to ensure security and transparency. However, the DRC will extend farther than the MLC by maintaining the metadata for digital, mechanical, synchronization, and performance rights much like the MLC does for mechanical rights regarding DSPs. A major problem facing the metaverse mirrors the issue DSPs had before the MMA: paying out royalties and obtaining licenses from the correct people. By running on blockchain, the DRC will have the capacity and bandwidth that the MLC, PROs, and third parties like the HFA do not, making it the prime candidate for oversight in the metaverse. Of course, collaboration is necessary for success. Unlike typical streaming, the metaverse offers a wide array of possibilities from interactive streaming, to downloads, to concerts. Because of this, digital property rights in conjunction with mechanical, performance, and synchronization licenses will concurrently be triggered, implicating each of the above organizations and the interests they represent.

Moreover, because synchronization rights are not currently under any body like PROs or the HFA, the DRC would act as such for the metaverse. To prevent indie artists slipping through the gaps much like they did with streaming, the DRC functioning as an administrative body for synchronization and digital rights would create some stability for smaller artists to get a share of the pot. The DRC would allow the market to set rates but give structure as to how they are collected and disbursed. Additionally, the creation of a digital property right will give songwriters and publishers more leverage in negotiating rates as the metaverse continues construction. Such metaverse platforms would need negotiated deals with the DRC upfront before musical works can be streamed, sold, or performed in their worlds. For this to be effective,
the DRC would mirror the MLC in requiring songwriters and publishers to become members of the body to benefit from the system and ensure payment in the metaverse.65

Furthermore, companies like Roblox and Epic Games (organizations that create their own metaverse worlds) would fund the DRC like DSPs fund the MLC under the MMA. With songwriters and publishers as mandatory members of the DRC, these companies would have the incentive to fund, not only to have music in their respective worlds, but also to lessen infringement liability as experienced in streaming early on with the Spotify and Wixen settlement.66 Additionally, many labels are already investing heavily in such companies,67 incentivizing the label side to favor this funding structure.

Lastly, blockchain possesses the ability to track transactions in smart contracts, which govern how goods are bought and digital property is transferred in the metaverse.68 Therefore, the DRC ensures licenses from streaming in Twitch to performances in Fortnite to festival merch sales in Decentraland have the proper ownership splits attached to each work.69 Moreover, the complexity of the chain of rights would be made easier to follow with smart contracts acting as authenticators, especially when NFT disputes inevitably arise.70 Under the umbrella of the DRC, digital property rights can be secured and traced, songwriters will have a common structure for synchronization rights reflecting market value, and metadata for copyright owners across platforms can know their rights will be efficiently monitored to ensure proper payment. With this, songwriters and publishers might just have a level playing field as this decentralized medium develops.

V. Conclusion
With the metaverse growing in popularity and funding, it is essential for plans to be put in place to ensure songwriters and publishers are not left out of the equation. The metaverse is the perfect environment for the pay disparities between recording artists and songwriters to be eliminated but proper administration is necessary to enforce both fair rates and prevent infringement. As we enter this next stage of technology, the traditional methods of licensing need to be reconsidered and legislation cannot be based on laws that could never predict where we are now. By establishing a digital property right and a suitable oversight body, songwriters and publishers may just make it big in the metaverse.

Endnotes
2. Id.
4. Todd Spangler, *Roblox Hit With $200 Million-Plus Lawsuit by Music Publishers Alleging Unauthorized Song Use*, Variety (June 9, 2021), https://variety.com/2021/digital/news/roblox-sued-music-publishers-nmpa-1234992976/ (“Delving into annual numbers, Israelite announced the music publishing industry’s 2020’s total revenue as $4,076,829,040, a 9.6% increase from 2019. ‘Mechanicals grew once again to 20.2% despite the fact that you have some mechanical categories that are shrinking rapidly. It’s because of the growth of the mechanical part of interactive streaming that the category overall grew,’ he added.”).
6. Id.
8. “Web 3.0” and the “metaverse” are used interchangeably.
12. Id.; see generally Elizabeth Aubrey, Lil Nas X in-game gig is one of the most viewed concerts of all time, NME.com (Nov. 18, 2020), https://www.nme.com/news/music/lil-nas-x-in-game-gig-is-one-of-the-most-viewed-concerts-of-all-time-2819981 (“As reported in IQ Magazine, the [Lil Nas X] performances achieved over 35 million visits from fans around the world.”).
15. Id.
16. 17 U.S.C. § 801(b)(1)(A)-(D) (prior to 2018 amendment) (Factors under the 801(b) standard included maximizing the public availability of the work, ensuring a fair return to the copyright owner and a fair income to the licensee, transparency in the copyright owner and licensee’s roles in making the work public, and minimizing disruption of the industry and its prevailing practices.).
19. See id., § 115.
21. See generally Web IV, 81 Fed. Reg. 26316, 26330 (May 2016) (The first iteration of the CRB taking on this approach can be illustrated by Web IV, where the Judges held that the Copyright Act permitted them “to set a rate that reflects a market that is effectively competitive,” within their discretion.); Web V, 86 FR 59452, 59456 (October 2021) (Web V expanded on Web IV by noting that the Web IV Court was limited by price competition in its determination but if such “competition is lacking,” the Court must consider “other forms of market behavior [that] either substitute for price competition or otherwise generate prices consonant with those that would be established through price competition in an effectively competitive market.”).
23. See id. at § 102(d)(3)(A)-(C).
24. See id. at § 102(d)(2)-(3).
25. History of HFA, HARRY FOX AGENCY, https://www.harryfox.com/#/history (Last visited Jan. 1, 2022) (HFA is “America’s premiere mechanical licensing institution and has led the industry with innovative mechanical rights management solutions for music creators and publishers... with nearly 50,000 affiliated publishers, more than 2,500 record labels and several top-tier digital service providers operating within the U.S.”).
28. Id.
31. Id.
32. Id.
34. Id.
38. Singleton, supra note 1.
42. Id.
43. Id.
44. See id. (“Amon Tobin is dropping his new album as 1/1 songs on Catalog, earning him $15k so far, with each buyer paying at least $2k per song. That’s about the equivalent of 3.75m streams on Spotify, coming from just a handful of supporters.”).
47. Elliott, supra note 41. See generally John deVadoss, Programming Smart Contracts in C#, MICROSOFT (Nov. 1, 2019), https://docs.microsoft.com/en-us/archive/msdn-magazine/2019/november/blockchain-programming-smart-contracts-in-csharp (Smart contract capabilities include: “the ability to authenticate parties and counterparties, ownership of assets and claims of right, the ability to access and refer to information and data both on the blockchain platform and outside of the smart contract (and the blockchain) to trigger transactions, [and] the ability to automate the execution of transactions and (economic) protocols on the blockchain platform.”).
48. Pryor et al., supra note 11.
49. Id.
50. Israelite, supra note 20.
51. Sidney Fohrman & Hayley Silvertown, The convergence of music and gaming — Sheppard Mullin, ESPORTS INSIDER (Aug. 24, 2021), https://esportsinsider.com/2021/08/the-convergence-of-music-and-gaming-sheppard-mullin/ (“licenses can be costly and challenging to obtain, especially in the event that there are several writers on a particular composition and a license is required from multiple music publishers...”).
52. Israelite, supra note 20.
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55. Israelite, supra note 20.
56. Elliott, supra note 46.
57. Pryor et al., supra note 11.

58. The recent decision leaving the consent decrees to govern the PROs angered many. The Justice Department cited one of the reasons that they would not overturn the decrees was in due part to the fact that although music technology was advancing, the licensing structure remained the same (unlike its earlier decision claiming the film industry did in fact change enough for Paramount to lose its consent decree for vertical integration). With the creation of a new digital property right in addition to the establishment of a universe where many rights will be implicated at once, the argument that the licensing structure remains the same will be turned on its head. See generally Anousha Sakoui, Justice Department Leaves Decades-old Music Industry Decrees Unchanged, LA TIMES (Jan. 15, 2021), https://www.latimes.com/entertainment-arts/business/story/2021-01-15/justice-dept-consent-decrees-music-industry-ascap; David Israelite, America’s Songwriters Deserve Better Than This, Billboard.com (July 7, 2016), https://www.billboard.com/music/music-news/nmpa-op-ed-david-israelite-consent-decrees-americas-songwriters-deserve-better-7430930/.

59. Elliott, supra note 41.
60. See Israelite, supra note 20.
61. See Sam Mire, Blockchain For The Music Industry: 9 Possible Use Cases, DISRUPTOR DAILY (Nov. 6, 2018), https://www.disruptordaily.com/blockchain-use-cases-music/.
63. Since digital rights and synchronization rights are not compulsory nor under consent decrees, the DRC could also negotiate rates with platforms at fair market value.
64. Israelite, supra note 20 (noting the NMPA has already completed deals with Facebook and Roblox to compensate songwriters as they grow their platforms in Web 3.0 with Twitch and TikTok beginning to enter the conversation).
66. See Dani Deahl, Spotify and Wixen settle the music publishing company’s $1.6 billion lawsuit, THE VERGE (Dec. 20, 2018), https://www.theverge.com/2018/12/20/18150197/spotify-wixen-lawsuit-settlement-dismissal-music-publishing (“Spotify and music publishing company Wixen have mutually agreed to dismiss the $1.6 billion lawsuit Wixen filed back in 2017…Wixen also claimed that Spotify was failing to pay out songwriter royalties about 21 percent of the time.”).
68. See Elliott, supra note 46.
69. See generally Elliott, supra note 41 (“We own the stuff we collect in Decentraland. Now that we have the merch in our wallets, we can go to any supporting 3rd party platform and sell it. You can buy and sell land in Decentraland as well…”).
When I Die Put My Money in the Grave: Creating a Federally Protected Post-Mortem Right of Publicity

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Introduction

Our obsession with the rich and famous has created a world where a celebrity’s identity can transcend the span of his or her own life. Even after death, a celebrity’s persona can still retain value for many years down the line. For example, since Michael Jackson’s death in 2009, his estate has made over $2 billion licensing his image, likeness, and music.¹ The use of an individual’s persona or identity for commercial purposes is called the right of publicity.² Most states in the US have either a common law or statutory right of publicity that provides protection during the individual’s life. Just under half of US states have statutes granting a right of publicity after death, which are referred to as post-mortem rights. The state-by-state nature of the right of publicity creates a lack uniformity across the country dealing with post-mortem rights. States also differ in their duration and scope of the right. The right of publicity was first introduced as a privacy right,³ but over the years, it has become more akin to a property right.⁴ Additionally, many states split in classifying the right as a property or privacy. However, this classification matters because the domicile of the deceased celebrity determines whether their rights will be a property right or a privacy right.⁵ This article argues the right of publicity is a property right, and deserves federal protection. Being that the right of publicity is akin to intellectual property, the post-mortem right of publicity should be treated as an intellectual property right, subject to federal law.

Part I provides an overview of the origin of the right of publicity, and the leading case law for the modern post-mortem right of publicity. Part II discusses the right of publicity today, compares it with intellectual property, and explains why the lack of uniformity in the application of the post-mortem right of publicity creates problems with constitutional rights and can be subject to bad faith on the part of heirs and assigns. Finally, Part III explains why a federal right is necessary, and provides a proposed statute for the federal post-mortem right.

I. Theoretical Foundations of the Right of Publicity

a. The Right to Privacy

The right to publicity can be traced back to the right of privacy. In 1890, Samuel Warren and Louis Brandies introduced the right of privacy in their Harvard Law Review article, The Right to Privacy.⁶ Warren and Brandies explained that the right of privacy developed as technology advanced, and “human emotions soon extended beyond the scope of personal immunity beyond the body of the individual.”⁷ This right protected individuals whose person was invaded in a manner that was offensive, distressing, or inappropriate.⁸ In 1960, William L. Prosser expanded on Warren and Brandies’ article, stating there were four categories of the right of privacy: intrusion upon the seclusion, public disclosure of private facts, false light claims, and “appropriation, for the defendant's advantage of the plaintiff’s name or likeness.”⁹ This last category has become known as the right of publicity.¹⁰ Prosser found the right of publicity to
be less of a privacy interest and more of a “proprietary one.” He explained that a plaintiff should have “exclusive use” of his or her identity as he or she sees fit. While this right does not exactly fit into the privacy category, Prosser declined to label the right of publicity as property. Even though declining to call this right a property right, Prosser indicated the right could be licensed, illustrating how the right has similar attributes to property.

b. The Right of Publicity in Case Law
One of the first major cases that dealt with the right of publicity was Haelan Labs. v. Topps Chewing Gum. In this case, the plaintiff, Haelan Laboratories, contracted with a baseball player for the exclusive right to use his photograph for selling gum. Topps Chewing Gum then induced the same baseball player to allow them to use his photograph to do the same, knowing about the previous agreement with Haelan Laboratories. The court stated that “in addition to and independent from that right of privacy...a man has a right in the publicity value of his photograph....” Judge Jerome Frank termed this right the right of publicity. The court also declined to call this right “a ‘property’ right” but stated that if the right was called property it would simply show courts that the plaintiff’s photograph had some “pecuniary worth.” The court went on and distinguished this right from the right of privacy which is an individual and “personal” right that cannot be assigned, unlike the right to publicity. This case began the trend of recognizing that the right of publicity is fundamentally different from the right of privacy, and has more characteristics to property.

In Factors Etc. v. Pro Arts, the court found that the right of publicity could survive the death of the person. The court validly found that Elvis Presley assigned the rights of his name and likeness to his company, Boxcar Enterprises. The court noted, that “[t]he identification of this exclusive right belonging to Boxcar as a transferable property right compels the conclusion that the right survives Presley’s death.” The court treated the right of publicity as a right that could be assigned and survive the celebrity’s life. The right was able to survive death because Presley exploited his right of publicity—his persona and identity—during his lifetime. The court once again found this right to be more like property, more specifically, intellectual property, rather than a privacy right. The court stated, “the interest protected: is closely analogous to the goals of patent and copyright law, focusing on the right of individual to reap the reward of his endeavors and having little to do with protecting feeling or reputation.” The court not only found the right of publicity could survive the death of a person and can be assignable, but to hold otherwise would unjustly enrich the other party. These issues iterated by the court are not ones that we worry about with privacy, but only with property, illustrating the right of publicity’s expansion into the realm of intellectual property.

Although not specifically called intellectual property, many judges have treated the right of publicity as an intellectual property right, and frequently bring up intellectual property terms in their opinions, like in the Elvis Presley case. In White v. Samsung Electronics, the court referred to Vanna White’s persona as “intellectual property.” The district court decision was reversed, holding that Vanna White did have rights in her identity, and for Samsung to use a robot dressed in a blonde wig, a formal gown, and standing next to a Wheel of Fortune board violated her right of publicity under California common law. The majority opinion did not outright refer to White’s rights as intellectual property, however the judges in the dissenting opinion and the petition for rehearing made that connection. Judge Alarcon, dissenting from the majority, stated that with intellectual property there is a balance between copying and the “unique expression” of those ideas, and unless those ideas are expressed in a specific way, the public should be able to have the interest.

In his dissent for the petition for rehearing for White v. Samsung Electronics, Judge Kozinski constantly referred to Vanna White’s persona as intellectual property throughout his blistering opinion.
Kozinski found that the majority vastly overprotected White’s rights in her “persona.” He stated intellectual property rights create a “balance” between the creator and the public. In intellectual property law, the rights holder retains rights for a specific period of time, however the public still has the ability to use the property, under certain conditions. He stated: “the intellectual property right created by the panel here has none of these essential limitations: No fair use exception; no right to parody; no idea-expression dichotomy.” In addition to explaining his stance on the matter, Judge Kozinski attacked the lack of uniformity between the states. He explained, “[I]t gives each state far too much control over artists on other states. . . . It is ironic that is we who plant this kudzu in the fertile soil of our federal system.” Despite his opinion, Judge Kozinski’s analysis of White’s identity clearly illustrates that the right of publicity is an intellectual property right. These cases, particularly White, illustrate how the treatment of the right of publicity has expanded as technology has advanced, making it more and more like intellectual property, needing federal protection.

II. The Right of Publicity Today

Today, the right of publicity remains a creature of state law. Each state defines the right differently, but, in essence, the right of publicity is a “right that protects against the misappropriation of a person’s name, likeness, and perhaps other indicia of personal identity for commercial benefit.” To validly have a right of publicity claim, the plaintiff must show:

(1) Validity. The plaintiff owns an enforceable right in the identity or persona of a human being; and

(2) Infringement.

(A) Defendant, without permission, has used some aspect of identity or persona in such a way that plaintiff is identifiable from defendant’s use; and

(B) Defendants use is likely to cause damage to the commercial value of that persona.

Damages to the plaintiff and benefit to the defendant are not a part of the prima facie case. The right of publicity also is not just for celebrities, “but is a right inherent to everyone to control the commercial use of identity and persona and recover in court damages.”

a. Post-Mortem Rights

Post-mortem rights vary state by state. Currently thirty-eight states have a right of publicity protected by statute or by common law. Many of the states with a right of publicity do not include a post-mortem right. In fact, only twenty states have post-mortem rights of publicity. States like Wisconsin and Minnesota have statutory rights of publicity, but those rights die with the celebrity, and their families cannot assert a right of publicity at death. States such as California and Indiana have post-mortem rights of publicity terms that last for 70 years and 100 years, respectively. The length of the post-mortem term and scope of the right is predicated on whether celebrities or major companies are domiciled in a particular state.

For states with post-mortem rights, state application is based on where the individual is domiciled at death. Other differences between states with post-mortem rights depends on if the state treats the right like property or privacy. If a state views the right of publicity as a privacy right, then there is no post-mortem right.

Post-mortem publicity rights provide protection for a person’s identity in a way that other federally-protected forms of intellectual property cannot. Most celebrities seek some sort of protection through
Copyright or trademark for their creative works, names, or brands, but the right of publicity protects more than that. The right of publicity expressly protects a person’s persona and identity. Many celebrities put time and energy into creating an identity that eventually begets some commercial value, and they should be able to reap the rewards of their labor, even after they pass away. If companies can take advantage of a celebrity’s image or identity following death, that would be fundamentally unjust, especially if the celebrity exercised his or her publicity rights throughout life, and was careful about lending that identity to endorse certain products.

b. The U.S. Federal Intellectual Property Scheme
The World Intellectual Property Organization defines intellectual property as, “creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce.” The three forms of recognized intellectual property—copyright, patent, and trademark—have foundations in the United States Constitution. Copyright law is derived from Article I of the Constitution granting Congress to promote the progress of the arts and sciences. The Copyright Act allows for copyright owners to retain ownership over creative works that are fixed in a tangible medium. Copyright protection vests in the work at the time of creation, but to enforce the right against others, authors must apply for federal protection. Copyright protection lasts for the life of author plus seventy years. Patent law is also derived from Article I, but the Patent Act grants a patent for twenty years to inventors who are the first to file new, useful, and non-obvious inventions. Finally, trademark law is derived from the Commerce Clause. Trademark law protects marks used in commerce, and can be in use for ten years, of which can be continually re-applied for. Trademark law also protects against the likelihood of confusion, which could be applied to celebrities if companies are using a celebrity endorsement to show a false connection with their product. If the person fails to continue using the mark, the mark is cancelled.

The right of publicity is not derived from Article I or the Commerce Clause, but came from the common law notion that a person “shall have full protection in person and in property.” Due to the similarity of the right of publicity with other forms of federally protected intellectual property, the right of publicity needs to have federal protection as well. This will not only clear up the state-by-state inconsistencies, but will provide clear, uniform application. Other forms of intellectual property do not die with the author or property owner, but can either continue throughout its term, or can be reapplied for. This should be the same for right of publicity. In states without post-mortem rights, the right of publicity dies with the celebrity, but a federally protected post-mortem right would “uphold[] the principle against unjust enrichment, prevents deceptive advertising, and serves to maintain confidence in contracts.”

c. The Problem with State Post-Mortem Rights
The lack of a federal right leaves the onus on the states to create post-mortem rights of publicity. States vary in their duration of the post-mortem right, and this causes a “race to the bottom.” The states not only lack uniformity with each other, but their statutes can also come into conflict with Constitutional rights.

In Experience Hendrix, LLC v. Hendrixlicensing.com, Jimi Hendrix’s estate fought over who owned his publicity rights, if he had any. At death, Jimi Hendrix was domiciled in New York—a state that, at the time, recognized the right of publicity as a privacy right, meaning that Hendrix had no publicity rights at death. All of Hendrix’s rights were assigned to his father at death, the right of publicity not being one of them. Hendrix’s father assigned all his rights to Experience Hendrix and Authentic Hendrix. Experience Hendrix had previous issues asserting Hendrix’s right of publicity, so in response, state of Washington amended the Washington Personality Rights Act (WPRA) to state that to have a property right in a person’s “name, voice, signature, photograph, or likeness...[that] does not expire upon the death of the individual or personality, regardless of the law of the domicile, residence, or citizenship of the individual.

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or personality at the time of death….” This 2008 amendment came in response from an earlier finding that Experience Hendrix had no right of publicity under New York law. In this lawsuit, the court had to determine if the choice-of-law provision under the WPRA could apply to Experience Hendrix. The defendants, Diffenback and Hendrix Licensing used certain domain names including Jimi Hendrix’s logos, and different song title and lyrics, allegedly infringing on Experience Hendrix’s publicity rights.

The judge had to determine if the WPRA actually applied to Experience Hendrix, because, if so, the result would be different if New York law were applied. The WPRA allows applying Washington law despite where the individual is domiciled at death, and the court needed to determine if the statute was constitutionally kosher. The defendants asserted the WPRA violated the Due Process Clause, the Full Faith and Credit Clause, the Privileges and Immunities Clause, the Commerce Clause, the Takings Clause, the First Amendment, and the Copyright Clause. For the Due Process Clause argument, the court found that even though Experience Hendrix stated the statute would govern the activities that took place in Washington—the statute itself governs more than that. Additionally, the widespread application of the WPRA also goes against all notions of testamentary law, because using the domicile has been regarded as the universal method of choosing what law to apply at death. In response to the Commerce Clause issue, the WPRA grants the state of Washington the ability to regulate commerce that also occurs outside of the state. The court found for the defendant on all other claims.

The death of Prince also sparked the debate between the post-mortem rights of publicity and the First Amendment. Minnesota, the state of Prince’s domicile, lacks a post-mortem right of publicity. The first draft of the Personal Right In Names Can Endure Act (PRINCE Act) in Minnesota, called for a term of fifty years for post-mortem rights, which could be a perpetual right if the rights were still in use at the end of the fifty year term. Critics felt this law raised serious concerns with the First Amendment due to its expansive term, and broad injunctive relief provisions. This first draft of the bill, also gave the rights holder the ability to retain “all unauthorized items and seize all instrumentalities used in connection with the violation of the individual’s rights.” These concerns were noted, and the final draft of the bill featured a term of fifty years, with an extension of another fifty years if the rights were still in use. Additionally, the rights had to have been exploited during the life of the celebrity, as they would also retroactively apply to those who died after the date of issue. The bill never passed, and Minnesota is still without a post-mortem right.

Not only are states having trouble finding balance between in creating an encompassing post-mortem right, heirs and assignees of publicity rights try to engage in forum shopping to maximize the scope of their rights. Marilyn Monroe died in California, but she was domiciled in New York. At death, her estate, Marilyn Monroe LLC, stated that her domicile was in New York to avoid paying California estate taxes. In 2005, a company began using her image and likeness, and her estate sued alleging a violation of her right of publicity. The estate then filed in Indiana, a state with an expansive right of publicity, alleging in infringement on the part of Milton Greene Archives, Inc. and Tom Kelley Studios Inc. Green had the claims transferred to California, where the estate tried to retroactively apply the California post-mortem right of publicity. Much to her estate’s chagrin, the court failed to apply California law to Monroe’s post-mortem publicity rights. Since 1962, the estate held that Monroe was domiciled in New York at the time of death, and the court refused to apply California law only for her publicity rights.

As seen in these cases, states and rights holders cannot be left to their own devices to adhere to statutory
post-mortem rights. States have trouble with creating too expansive rights, and rightsholders forum shop to get the broadest scope and longest term for their assigned post-mortem rights.

III. Federal Protection for the Post-Mortem Right of Publicity

This article calls for federal protection for the right of publicity. As seen with the previous case law, the right of publicity has increasingly expanded as a property right. The right of publicity has the underlying characteristics of intellectual property, being that creators can “benefit from their own work or investment in a creation.” Carefully drawing the lines between rights at life and death over a celebrity’s persona would decrease the litigation by heirs and assignee’s while still respecting the lines between the other forms of intellectual property and constitutional considerations. Most questions with the post-mortem right at death concern the First Amendment as well as over protection from copyright law. Copyright requires protection to be fixed in a tangible medium, so the right of publicity is getting at something that is not fixed, but still offers value and can be bought, sold, and licensed.

Most importantly, a federal right is necessary because state law will constantly be weighed against First Amendment concerns. Many critics of the post-mortem right find that the right “is inconsistent with free speech and permits private censorship of popular culture and discourse.” The reason states should not be responsible for creating post-mortem rights is because they are not thinking about the First Amendment when drafting state laws. Congress, on the other hand, is always thinking about fundamental rights when creating new laws, and understands the limits between their law-making powers and the rights granted by the Constitution. Due to this, only Congress has the proper incentive to create a post-mortem right that is clearly defined within the bounds of the First Amendment.

a. Drafting the Post-Mortem Right

A federally protected post-mortem right must be carefully defined to show the difference between the right at life and at death. This paper will only draft a model statute for the post-mortem right, but the call for federal protection also would require a federal right of publicity during life as well. This federal law will be a compromise between the least and most expansive state rights. The underlying policy for this is that the right of publicity should be more limited after the death of the individual. A notable feature of the statue is the definition of the post-mortem right. It is limited to the name, image, photograph or likeness. Signature or voice is not protected in the post-mortem right because if the celebrity has any commercial or recognition value, the public should know the celebrity has passed away, and could not be endorsing a product through signature or voice. The right of publicity at life should exist without filing, but if the individual wants post-mortem rights, he or she must file with the Office for notice and enforcement purposes. For the purposes of this statute, the Office is most likely the Copyright Office.

Post-Mortem Right of Publicity Proposed Federal Law

Section X:

Preamble: The post-mortem right of publicity shall be enacted to protect against the misappropriation of an individual’s identity after the death of the individual, while creating uniformity among the states.

1) Definitions.

a) For the purposes of this Section, “applicant” means the person or entity with ownership of the individual post-mortem right filing for federal protection of the individual’s post-mortem right.
i) The applicant must show ownership of the post-mortem right through assignment, license, or any other method of conveyance.

b) For the purposes of this Section, “individual” means the person whose identity is being protected under the post-mortem right.

c) For the purposes of this Section, “likeness” means representation that bears substantial resemblance to the individual it purports to represent.¹⁰⁴

d) For the purposes of this Section, the “post-mortem right” for an individual shall only include name, image, photograph, and likeness that has been shown to possess commercial value, and can be used for commercial purposes.

e) For the purposes of this Section, “post-mortem” means after the death of the individual.

2) In order to take effect, an individual’s post-mortem must be filed in the Office by the applicant,

a) before one year after the date of death of the individual.

3) At the time of filing,

a) the applicant must show the individual assigned his or her post-mortem right to the applicant before the individual’s death.

b) the applicant must show that the individual’s identity has commercial value. A prima facie method of showing commercial value can be:

i) evidence of other pending or issued grants of intellectual property rights;

ii) evidence of assignment or licensure of the individual’s identity; or

iii) any other method determined by the Office.

4) If filing after death pursuant to 3(a) the applicant must specifically define the scope of the right.

5) The individual must have used the right of publicity during his or her lifetime before filing by the applicant.

a) Use by an assignee, licensee, or similarly authorized entity during the individual’s life is permitted.

6) Unless rejected by the Office, the post-mortem right cannot be amended after filing and issuance.

7) The term shall last for 50 years after the death of the individual. Following the expiration of the 50 year-term, the applicant can apply for an additional 20-year term, if the applicant can provide the Office with evidence the post-mortem right is still in use.

a) If the applicant does not use the right for a period of 5 years during the term, this constitutes prima facie evidence of abandonment.
b) If the applicant does not use the right for a period of 5 years during the additional term, this constitutes prima facie evidence of abandonment.

8) Infringement.

Any person with valid possession and registration of a post-mortem right of an individual that is used for any commercial or advertising purpose without the written consent of such person or the written consent of any of the parties authorized may bring an action to enjoin such unauthorized use and to recover damages for any loss or injury sustained by such use.

9) Under this Section, uses that are not infringing include:

a) Works of political or newsworthy value;

b) Literary works, theatrical works, musical compositions, film, radio or television programs;

c) Original works of art that constitute transformations of the right;

d) Assignment;

e) License; or

f) Consent.

10) Internet Service Providers (ISPs) shall be immune from damages for infringing content posted by third parties.

a) If an ISP is contacted to take down information posted by third parties, the ISP must take the material down, if possible, and contact the third party who posted the material.

b) Before contacting an ISP to take down information, the post-mortem right must be validly registered and issued.

11) Damages

a) Compensatory. A person who is found to have violated this section, will have to pay a fine of no less than $1,000.

i) If willful infringement is found, the compensatory damages can be doubled.

b) Punitive. Punitive damages are not available under this Section.

C) Preliminary Injunctive Relief. Preliminary injunctive relief is not available under this Section.

d) Injunctive Relief. Injunctive relief will only be granted to restrain further infringement on the post-mortem right.

**Conclusion**

As technology advances and our obsession with celebrity grows, the post-mortem right of publicity will
be harder to control if it continues to be applied on a state by state basis. Over time, the right of publicity has transformed into a property right, and should receive the same treatment as other intellectual property rights—subject to federal regulation. Having a clearly defined right not only puts the individual who is claiming the right on notice, but also works within the boundaries of the Constitution and fundamental rights. The lack of uniformity in state laws, and the sometimes bad faith of heirs and assignees illustrates that federal protection is imperative. While celebrities have subjected themselves to being accessible to the public during their lifetime, even after death, the public should not be able to commercially benefit from their identity without the appropriate permissions.

Endnotes


2. See infra text accompanying note 18.
3. See infra text accompanying notes 6–8.
4. See infra text accompanying notes 21–27.
5. See infra text accompanying note 45.
7. Supra note 6 at 194.
8. See supra note 6.
10. See Haelan Labs., Inc. v. Topps v. Chewing Gum, Inc., 202 F.2d 866, 868 (1953). Judge Frank first used the term referring to the appropriation of a person's likeness for a commercial benefit as the right of publicity.
11. Supra note 9, at 406.
12. Supra note 9, at 406.
13. Supra note 9, at 406.
14. Supra note 9, at 406–07.
16. Id. at 867–68.
17. Id. at 868.
18. Id. (stating “[f]or it is common knowledge that many prominent persons (especially actors and ball-players), far from having their feelings bruised through public exposure of their likenesses, would feel sorely deprived if they no longer received money for authorizing advertisements... . This right of publicity would usually yield them no money unless it could be made the subject of an exclusive grant”).
19. Id.
20. Id.
22. Id. at 217.
23. Id. at 221.
24. See id.
25. Id. at 222.
26. Id. at 220 (quoting Zacchini v. Howard Broadcasting, 97 S. Ct. 2849, 2856 (1977)) (internal citations omitted).
27. See id. at 221.
29. Id. at 1399.
30. See id. at 1408; White v. Samsung Electronics America, Inc., 989 F.2d 1512 (9th Cir.1993) (petition for rehearing denied).
31. White, 971 F.2d at 1408.
33. Id. at 1517.
34. Id. at 1516.
35. Id.
36. Id.
37. Id. at 1519.
40. Supra note 39.
41. Supra note 39, at § 1:3.
43. See supra note 42.
49. See supra note 47.
50. Supra note 47, at 275. Another argument that comes up with the right of publicity, is the labor argument that is prevalent in the foundations of American property law. Melville B. Nimmer, The Right of Publicity, 19 LAW & CONTEMP. PROBS. 203, 216 (1954). Nimmer states, “a person achieves publicity value…after he has expended considerable time, effort, skill, and even money. It would seem to a first principle of Anglo-American jurisprudence…that every person is entitled to the fruit of his labors unless there are important countervailing public policy considerations.” Id.
51. Id.
52. See, e.g., Factors Etc., Inc. v. Pro Arts, Inc., 579 F.2d 215, 222 (2d Cir. 1978).
59. U.S. Const. art. I, § 8, cl. 3.
64. See supra text accompanying notes 56-63.
65. Marc A. Lieberstein, Why a Reasonable Right of Publicity Should Survive Death: A Rebuttal, 17 NYSBA: BRIGHT IDEAS 9, 10 (Fall 2008).

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68. Id. at 1127. As of December 2020, Governor Andrew Cuomo signed into law that “deceased performers” and “deceased personalities” now have an actionable post-mortem right of publicity in New York. Sandra A Crawshaw-Sparks, Brendan J O’Rourke, and Jennifer L Jones, New York Passes Law Recognizing Post-Mortem Right of Publicity and Creating Private Right of Action for Sexually Explicit Deepfakes, NATIONAL LAW REVIEW (December 14, 2020) https://www.natlawreview.com/article/new-york-passes-law-recognizing-post-mortem-right-publicity-and-creating-private. The right will only extend for forty years, is transferable, and must be registered with the Secretary of State. Id.

69. Id.

70. Id.

71. Id.

72. Id. at 1128.

73. Id. at 1130.

74. Id. at 1133.

75. Id.

76. Id.

77. Id. at 1135.

78. Id. at 1138.

79. Id. at 1142.

80. Id.

81. Id. at 1149.


83. Supra note 82.

84. Supra note 82.

85. Supra note 82.


87. Supra note 86.


90. Supra note 89.

91. Supra note 89.

92. Supra note 89.

93. Supra note 89.

94. Supra note 89 (explaining that the court judicially estopped Marilyn Monroe LLC from stating where she was domiciled at death to take advantage of a more expansive state right).

95. Supra note 89. A lawyer at Kenyon & Kenyon found that this was a textbook case for why the right of publicity “law cries out for uniform federal protection.” Id.

96. See supra text accompanying notes 15–37.


98. Marc A. Lieberstein, Why a Reasonable Right of Publicity Should Survive Death: A Rebuttal, 17 NYSBA: BRIGHT IDEAS 9, 10 (Fall 2008).

99. Kevin L. Vick & Jean-Paul Jassy, Why a Federal Right of Publicity Statute is Necessary, 28 COMM. LAW. 16
100. See generally Kevin L. Vick & Jean-Paul Jassy, Why a Federal Right of Publicity Statute is Necessary, 28 Comm. Law. 14, 16 (2011).

101. See generally supra note 100, at 15.

102. See supra note 99.


105. Punitive damages are not allowed under the Copyright Act, and it should follow for the federal post-mortem right as well. See supra note 100, at 19.